ufficio parlamentare di bilancio

2021 Budgetary Policy Report

December 2020

The Report has been published with information updated to 15 December 2020.
The electronic version can be downloaded from: www.upbilancio.it

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CONTENTS

SUMMARY V

1. THE MACROECONOMIC ENVIRONMENT 11

1.1 Recent economic developments 11

1.1.1 The international economy and risk factors 11

1.1.2 The Italian economy 13

1.2 Macroeconomic forecasts 16

1.2.1 The Government's scenario 16

1.2.2 Endorsement exercise 18

1.2.3 An assessment of the endorsement of the macroeconomic forecasts presented in the EFD Update 22

Box 1.1 – Pandemic, social distancing and growth in Italy 24

2. THE PUBLIC FINANCES 27

2.1 Public finances in 2020 within the context of the health emergency 27

2.1.1 The effects of the Decree Laws to counter the impact of COVID-19 39

2.2 The public finances in 2021-2023 in the context of the use of EU funds 52

2.3 The budget package for 2021 55

Box 2.1 – Next Generation EU following the agreement of the European Council of July 2020 and the proposed use of the resources available to Italy according to the documentation related to the 2021 Budget Bill 61

2.3.1 Main measures in the budget package 63

2.3.2 General remarks on the budget measures 69

2.4 Developments in the debt/GDP ratio 72

2.4.1 The impact of the Eurosystem's purchase programme on the Italian government securities market 75

2.4.2 Further examination of developments in the debt/GDP ratio 78

3. MAIN MEASURES IN THE BUDGET BILL 81

3.1 Support measures to counter the health and economic crisis 81

3.1.1 Support for the labour market 81

3.1.2 Measures to support firms 88

3.2 Measures for recovery 94

3.2.1 Employment incentive measures 94

3.2.2 Tax incentives for business investment 97

3.3 Measures for households 104

3.3.1 The unified dependent child allowance 104

3.3.2 Other measures 107

3.3.3 Local government finances and policies for social services and households 108

3.4 Measures for public employment 111

3.5 Measures concerning pensions 117

3.6 Measures for the healthcare sector 119

3.6.1 Funding the National Health Service 119

3.6.2 Measures funded with an increase in resources 120

3.6.3 Measures in the pharmaceutical field 122

3.6.4 Patients mobility across regions 123

3.6.5 Healthcare facility construction 124

3.7 Measures for education 126

3.7.1 Schools 126

3.7.2 Universities, AFAM and research institutions 128

3.8 Measures for Southern Italy 130

3.9 Measures to counter tax evasion and encourage the use of traceable payment instruments 136

SUMMARY

The 2021 Budgetary Policy Report extends and supplements with specific assessments and sectoral analysis the testimony given at the hearings on the Update to the Economic and Financial Document (EFD Update) and on the budget package by the PBO Chairman, Giuseppe Pisauro, before the Budget Committees of the Chamber of Deputies and the Senate on 12 October and 24 November.

The first of the three chapters of the Report examines **the macroeconomic scenario, taking due account of the most recent economic indicators**. In 2020, GDP is expected to have contracted by around 9 per cent, in line with the projections of the Ministry for the Economy and Finance (MEF) given in the EFD Update and the Draft Budgetary Plan (DBP), as the negative surprise in the fourth quarter would essentially offset the rebound in the summer. Moreover, the worsening economic situation undermines the outlook for 2021: even in the event of a rapid recovery beginning in the spring, thanks in part to the improvement in the economic climate following the launch of the vaccination campaign, the Government's policy forecast for GDP growth of 6.0 per cent seems difficult to achieve. On the occasion of the endorsement exercise for the macroeconomic scenario in the EFD Update, the PBO had forecast a pace of GDP growth in 2021 similar to that indicated by the Government. However, the slowdown emerging for this quarter will reduce the carry-over impulse into next year – and therefore the outlook for growth – by at least one percentage point.

The second chapter is devoted to a detailed reconstruction of **developments in the public finance aggregates in 2020 and** the measures implemented by the Government **in response to the health emergency, an exposition of the fiscal forecasts for the 2021-2023 period and an analysis of the Budget Bill for 2021 in the context of the use of EU funds**.

In 2020, the impact of the pandemic on the economy and the public finances interrupted the gradual improvement in the public accounts over the past few years, strongly influencing their performance. According to official estimates, the general government deficit, which was 1.6 per cent of GDP in 2019, is expected to rise to slightly over 10.8 per cent in 2020, while the debt should increase from 134.7 per cent of 2019 GDP to 158 per cent. During the year, the Government submitted four Reports to Parliament to request authorisation for an increase in deficit compared to previous adjustment path. The total estimated impact on general government net borrowing in 2020 following the various Decree Laws presented is equal to €113.6 billion, although the effective increase comes to €108.2 billion net of €5.4 billion in savings on deviations authorised by Parliament. Of the total deterioration in the balance, €90.1 billion is attributable to an increase in net expenditure – mainly on current account (€74.2 billion) – and €23.4 billion to a decrease in net revenue.

According to the forecasts in the EFD Update for 2021-2023, policy net borrowing should amount to 7.0 per cent of GDP in 2021 before decreasing to 4.7 per cent in 2022 and below the 3 per cent threshold in 2023, thus improving with respect with the 3.3 per cent forecast on a trend basis. Developments in the debt/GDP ratio should be more favourable than the trend scenario in each year of the planning period, with an accentuation of its reduction. The budget contains expansionary measures of substantially similar size in terms of GDP over the three-year period: 1.8 per cent in 2021, 1.9 per cent in 2022 and 1.7 per cent in 2023, with the policy budget balances showing a progressive improvement attributable to resources that for 2022-2023 are largely linked to the tax feedback from growth created with the expansionary measures; such tax feedback is estimated by the Government at 0.7 per cent in 2022 and 1.1 per cent of GDP in 2023. The inclusion of revenue produced by fiscal feedback effects reflects the use of European funds from the NGEU programme in the policy scenario, which would have an expansionary impact on GDP and a consequent favourable feedback impact on the public finances.

However, the estimates of resources produced by the expected increase in tax revenue from expansionary measures appear to have been calculated in a scenario that still presents uncertainty concerning the timing of the use of European funds and that is based on trend developments in GDP and the public finances, that are affected by great uncertainty. Assuming that the composition and timing of the use of European funds are similar to those that could be inferred from the EFD Update, simulations performed using the models of the PBO panel forecasters indicate that the estimate of the increase in tax revenue contained in the Budget Bill appears optimistic, especially for 2023, when the estimate in the Budget Bill is overestimated by at least a quarter. Furthermore, the evolution of the public finances over the next three years depends on forecasts in the macroeconomic scenario that are still exposed to downside risks. The Government has in fact already announced its intention to assess the need for further deviations next January in light of developments in the pandemic.

The greatest risk for the deficit and developments in the debt derives from the fact that it has been decided to use these estimated amounts to finance measures permanently increasing expenditure or reducing revenue, which require structural funding in the long term.

The Budget Bill and the related documentation contain some information on the criteria for the use of the NGEU funds available to Italy, which are estimated to total €209.7 billion. In particular, the Government has elected to use €121.2 billion of the funds for new measures (to be financed using the full amount of grants available, which total €82.1 billion, and "additional" loans of €39.1 billion) and to use the remaining €88.5 billion for measures already envisaged under current legislation, to be financed with "replacement" loans.

According to the policy scenario in the EFD Update, which was confirmed in the DBP, the debt/GDP ratio is expected to decrease starting from 2021, falling from the 155.6 per cent expected for next year to 153.4 per cent in 2022 and 151.5 per cent in 2023.

The PBO has assessed the sensitivity of the policy trajectory of the ratio to an alternative scenario, based on the forecasts for real GDP growth and the GDP deflator developed by the PBO through 2023. Using standard assumptions for the impact of these variables on public finance aggregates, in the PBO scenario the debt/GDP ratio would exceed that in the EFD Update scenario over the entire period. After an initial decline in 2021, the debt/GDP ratio would start to rise again as early as 2022. The outcome of the sensitivity exercise must also be considered in light of the uncertainty about the evolution of the pandemic and the subsequent economic recovery, as well as the possible risk of a downward revision of the macroeconomic forecasts underlying these estimates.

The Report re-examines the analysis of the implications of the Eurosystem's purchase programme on the secondary market. Using a number of specific assumptions, the impact of the Eurosystem purchase programme is assessed, in particular the volume of securities net of Eurosystem purchases that will have to be absorbed by private investors. For 2020, Eurosystem purchases of Italian securities would amount to approximately 39 per cent of expected gross Treasury issues on the primary market. In this scenario, gross issues of government securities net of Eurosystem purchases would amount to €335 billion, which is less than the volume registered in 2019, when estimated purchases amounted to €384 billion. For 2021, including the recently decided expansion of the ECB's purchase programme, the total volume of Eurosystem purchases would fall to 33 per cent of total gross Treasury issues, with gross issues net of Eurosystem purchases equal to an estimated €358 billion, an increase compared with 2020, but still lower than those estimated for 2019. Net issues of government securities net of Eurosystem purchases would be negligible: a marginally positive €3 billion for 2020 and a negative €3 billion for 2021. In both 2020 and 2021, the share of government securities held by the private sector would decline at the end of the year.

The third chapter contains **qualitative and quantitative assessments of the main measures contained in the budget package and their effects on the categories and sectors concerned**.

In the context of the great uncertainty over the evolution of the pandemic and macroeconomic conditions, the budget package appears to be an amalgam of measures targeted at a variety of worthy goals but without a well-defined underlying budget policy design. More specifically, it is composed of a series of measures part of which follow in the wake of those launched previously to support the labour market and firms and part are intended to foster recovery in the coming years. In addition, it includes interventions to support households, measures regarding public employment, measures concerning pensions, healthcare and education, measures for the South and others combatting tax evasion and providing incentives for the use of traceable means of payment.

The emergency measures include the extension to the early months of 2021 of the extraordinary package of anti-crisis programmes for the labour market (COVID-19 wage supplementation or, alternatively, contribution relief; the moratorium on layoffs for financial reasons; the renewability of fixed-term contracts), a further extension of liquidity support for firms (public guarantees and the extraordinary moratorium on loan repayments), aid for industries most severely affected by the crisis, as well as a series of measures supporting the areas of public intervention directly affected by the pandemic, such as healthcare, education, security and local public transport.

The most structural measures involve a variety of major areas. First, considerable attention is devoted to investment, both public (supported both by national resources and NGEU funds), and corporate. On this latter front, the budget package extends and broadens the scope of application of the incentives already adopted in previous years through the tax credit for spending on new capital goods, investment in research and development, technological innovation and other innovative activities, and industry 4.0 training costs. An analysis of the financial statements of corporations shows that the enhanced tax credit proposed for 2021 is in any case more generous than the existing incentives. For 2022, the attractiveness of the mechanism depends on the type of asset involved: for high-tech equipment, the new tax credit is enhanced with respect to both the existing credit and the increased depreciation for investments exceeding €2.5 million.

Measures are also envisaged for the rebalancing of the financial structure of firms, encouraging their recapitalisation to compensate for the increased leverage on their balance sheets as a result of the crisis and to ensure more favourable conditions for the resumption of investment. To this end, the Budget Bill extends certain measures introduced with the May decree to incentivise the contribution of equity capital for small and medium-sized firms (those that have seen their revenues decline by more than a third compared with 2019), allows the SME Capital Fund to subscribe securities issued by certain companies benefiting from the tax credits and introduces tax incentives for business combinations carried out through a merger, spin-off or other transfer of a business.

Other substantial measures have been envisaged to support employment in the South, and in general of young people and women. In particular, the budget package extends the contribution relief previously introduced with the August decree for all employers with employees in the South until 2029. The contribution relief, which declines over the years (from 30 per cent until 2025 to 10 per cent in 2028-2029), is available for all employees in the South, not only new hires or those whose fixed-term contracts are made permanent, thus representing a reduction in the labour costs of firms operating in the South.

The package of measures for households first makes the 100 euro tax credit for payroll employees (*bonus* Irpef), introduced with Decree Law 3/2020 but financed only for the second half of 2020, a permanent benefit. But above all, the announced reform of the tax system is being launched, for now only in terms of the appropriation of financial resources. In particular, additional resources have been allocated for 2021 to the fund for the universal allowance and family services (€3 billion), while a new fund of €8 billion in 2021 and €7 billion from 2022 has been established to finance the reform. Of these resources, an annual amount of between €5 billion and €6 billion is specifically allocated to finance the universal allowance for dependent children.

While the details of the tax reform have yet to be defined, those for family support are at a more advanced stage: implementation has been delegated to a bill under discussion in Parliament that sets general criteria for the overall reorganisation of programmes to support dependent children. The resources allocated so far for the revision of family benefits, including those provided for in the Budget Bill, amount to approximately €4 billion for 2021 and between €6.2 billion and €7.2 billion as from 2022.

However, the bill does not specify the specific criteria for the design of the children allowance with regard to both its amount and the relationship with the equivalent economic status indicator (ISEE), which is to be used in determining eligibility for the new instrument. It is therefore difficult to assess both the congruity of the appropriations with respect to costs and the distributive effects of the new measure. Analyses recently conducted by the PBO, in which different possible configurations of the universal allowance are considered, show that the greatest benefits would be concentrated among taxpayers with low incomes and zero tax who do not benefit from personal income tax credits for dependent children under the current system (so called *incapienti*) and self-employed workers (who are not eligible for family allowances under the current system, which are reserved for households in which income from payroll employment represents at least 70 per cent of the couple's income). The average net benefit (the balance between the new allowance and the programmes that would be abolished) would be around €1 thousand per household. However, there is a risk that for non-negligible share of households, the benefits they receive under the current system may be greater than those under the new universal allowance. This would be most likely for families with adult children, who would receive a reduced universal allowance, but the change could also penalise other types of household due to the different mechanism for calculating the new universal allowance compared with current programmes.

1. THE MACROECONOMIC ENVIRONMENT

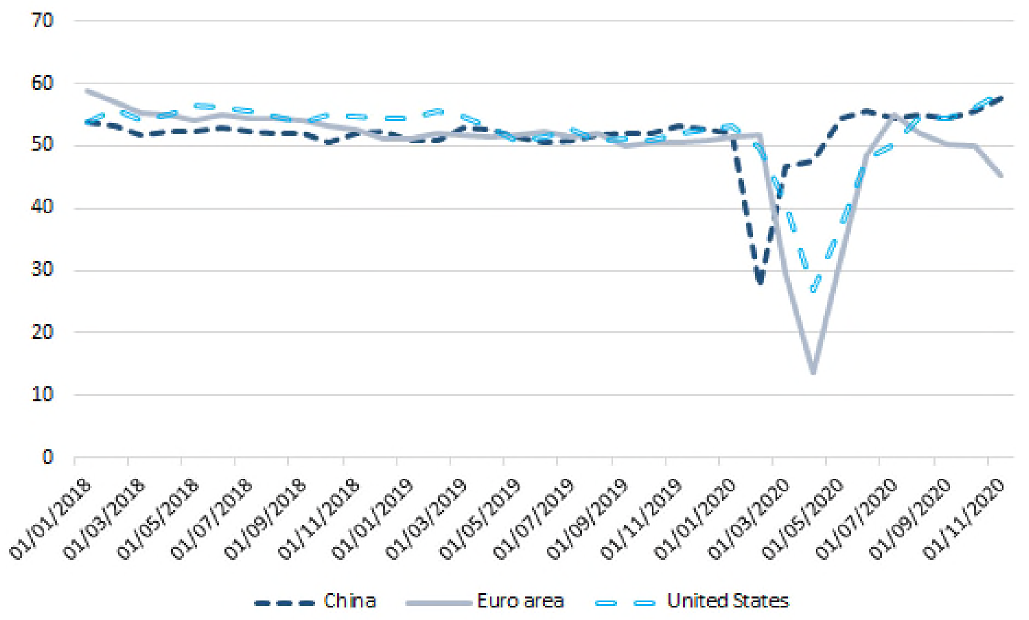
1.1 *Recent economic developments*

1.1.1 The international economy and risk factors

The international economic cycle continues to be dominated by the evolution of the pandemic. With the easing of social distancing measures in the summer, economic activity recovered significantly and, at the same time, the expectations of forecasters improved. In mid-October the International Monetary Fund (IMF) revised its forecast for the change in world GDP in 2020 upwards by eight-tenths of a point compared with June (-4.4 per cent). However, the return to normal production activity fuelled a resurgence of pandemic outbreaks, requiring new social distancing and lockdown measures in many countries.

The global composite confidence index for purchasing managers (J.P. Morgan Global Composite PMI) declined in November, for the first time in six months. While in the European countries the index returned to the zone indicating a contraction (below 50), in China and the United States it continued to point to an expansion, but for different reasons: in China the epidemic seems to have effectively been defeated, while in the United States the second wave and the consequent restrictions are taking place with a certain delay and the first signs of a slowdown are emerging in December (Figure 1.1).

Figure 1.1 – PMI indices for the main areas



Source: IHS Markit.

In mid-December, the total number of cases of the pandemic exceeded 73 million globally, with over 1.6 million deaths. In Europe, new cases in several countries appear to have peaked, thanks to the restrictive measures adopted earlier (for an assessment of the effects of the measures in Italy, both on the pandemic and on the economy, see Box 1.1). However, fears remain that new infections could surge during the Christmas holidays, and many countries have re-introduced social distancing measures.

The economic outlook depends closely on the possibilities for treating and preventing COVID-19. Vaccination campaigns have begun in a number of countries, and the European Union expects an acceleration in the approval of the first vaccines by the European Medicines Agency, which is expected to come as soon as the end of December. According to the OECD, prospects have improved globally for the first time since the beginning of the pandemic thanks to the scientific and industrial progress achieved on vaccines.

In China, where the pandemic originated, the draconian measures implemented promptly made it possible to quickly repress the spread of the coronavirus and return to growth as early as the second quarter. The country ranks seventieth in the absolute number of infections, despite being the most populous nation in the world. China posted positive GDP growth in the first nine months of 2020 as a whole (0.7 per cent), while in the United States and Europe growth was negative in both the first and second quarters and only turned positive in the third (in the first three quarters as a whole, their GDP contracted by 3.9 and 7.4 per cent respectively).

The major international forecasters (IMF, OECD and the European Commission) agree in predicting a contraction in world GDP for 2020 of between 4.2 and 4.4 per cent and a rebound of the same order of magnitude in the coming year.

The high frequency data for world trade available so far regard September and still do not reflect the recent slowdown associated with the second wave of the pandemic. The IMF's upward revision in October of its forecasts for trade growth for this year and the next (to -10.4 per cent and 8.3 per cent respectively) will also most likely be lowered due to the current wave of the pandemic. Compared with the forecasts of the IMF, the OECD and the European Commission, the Draft Budgetary Plan (DBP) projects more favourable trade growth for both this year and the next, confirming the assumptions for international exogenous variables used in the Update to the Economic and Financial Document (Table 1.1).

The price of oil, which had trended at just above $40 per barrel between the second half of the summer and the end of November, subsequently rose above $50 on 10 December. The recovery was fostered by optimism about the production and distribution of vaccines, but also by the weakness of the dollar. This allowed the realignment of the assumptions in the DBP with futures prices, in particular for 2021, which pointed to an average price of $48 per barrel at the beginning of December.

Table 1.1 – World trade (1)

	Percentage growth rates		Differences with previous forecasts	
	2020	2021	2020	2021
MEF (19 October)	-9.9	8.9	-0.4	-2.1
European Commission (5 November)	-10.5	6.1	0.9	-1.3
IMF (7 October)	-10.4	8.3	0.6	-0.1
OECD (1 December)	-10.3	3.9	1.1	1.4

(1) (1) For the MEF, the figures regard growth in Italy's key foreign markets. The previous forecasts regard those in the EFD from April for the MEF, May for the European Commission, April for the IMF and March for the OECD.

During the first seven months of the year, the euro appreciated against the dollar by about 5 per cent, going from $1.12 to $1.18 per euro. This was followed by a period of relative stability until the closing days of November when, in conjunction with the spread of the positive news on vaccines, the dollar began to weaken against the other major currencies. According to many analysts, the cause was the return to normality around the world, which prompted an outflow of capital from the dollar, which is still perceived as a safe haven currency. Taking account of current spot and forward prices, the technical assumption for the dollar/euro exchange rate in the DBP appears consistent for this year and only marginally divergent for 2021 (1.185 in the DBP, compared with 1.20 for forward rates).

Risks. Risks remain on the downside. Globally, the high level of debt accumulated by most sovereign issuers could lead to tensions on the financial markets if fears arise that the growth prospects for some countries are not sufficient to sustain their debt burden and monetary policies are not widely effective. Another risk is represented by the timing of fiscal stimuli, which in Europe depends significantly on the process of launching the Next Generation EU (NGEU) programme.

The risks associated with the evolution of the pandemic also remain. The main international forecasters are discounting gradually less stringent restrictions over the course of 2021, thanks to the progressive spread of vaccines. If, however, it takes longer to achieve herd immunity, new waves of the pandemic, and therefore further restrictions on economic activity, cannot be ruled out.

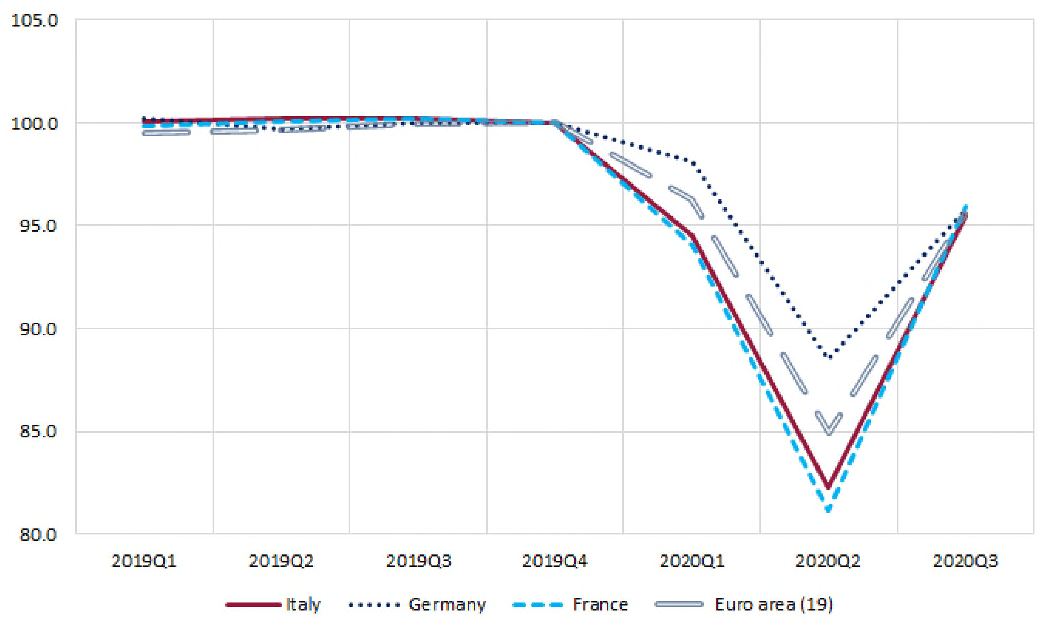
1.1.2 The Italian economy

The complete estimate of the quarterly accounts released by Istat at the beginning of December confirmed the very strong rebound in GDP in the third quarter over the previous period (15.9 per cent). This development, although revised downwards by two-tenths of a point compared with the preliminary figure issued at the end of October, recouped much of the decline registered in the first half of the year. However, the level of economic activity remains 4.7 percentage points below that recorded in the final part of 2019, in line with the other major euro-area countries (Figure 1.2). The change in output already acquired for 2020 stands at -8.3 per cent. Economic indicators delineate a cyclical weakening starting from the end of the summer.

Industrial production grew by 29.0 per cent in the third quarter compared with the previous period but remains about 4 percentage points below the 2019 average level. The most recent data for the manufacturing sector show a continuation of the expansion, albeit coloured by uncertainty. The slight recovery of production in October (1.3 per cent) after the sharp contraction in September (-5.1 per cent) was accompanied by signs of weakening from business surveys. In November, the manufacturing PMI decreased compared with the previous month and business confidence as measured by Istat worsened, due to the deterioration both in views concerning orders and production expectations. In construction, output in October fell further (-1.8 per cent on the previous period) after the sharp decline experienced in the previous month (-8.1 per cent). The most recent qualitative information also points to a deterioration, with the worsening of the climate of confidence in the sector in November interrupting the improving trend under way since the beginning of the summer.

The impact of the health emergency on the services sector appears to be more persistent than that in industry. The restrictions on individual mobility led to a collapse of the retail trade during the lockdown, which was only partially recovered later. During the summer, holidays were short and spending was more contained, due in part to the decline in the number of foreign tourists. The adverse repercussions of the pandemic for air transport continued in the autumn. In October the number of passengers remained more than 70 per cent below the level registered in the same month of 2019. The November figure for the PMI in the services sector (39.4, down from 46.7 the previous month) marked the lowest level registered in the last six months, confirming the deterioration of activity in the sector.

Figure 1.2 – GDP growth in the euro area and in its three largest economies
(index, 2019Q4=100)



Source: based on Eurostat data.

On the demand side, the year-on-year developments in Confcommercio's consumption indicator (in volume terms) worsened in October, despite a slight increase in retail sales (in value terms on the previous period) observed by Istat. The Bank of Italy's Survey on Inflation and Growth Expectations revealed an upward revision of firms' investment plans for the second half of this year, but the survey was conducted at the beginning of September, before the deterioration of the epidemiological situation in Italy. After the sharp slowdown in the first half of the year, foreign trade registered a significant recovery in the summer months. However, in September exports decreased to the countries of the European Union, an area that is currently especially hard-hit by the pandemic. In October there was also a downturn in non-EU markets.

The uncertainty of households and businesses as measured by the index of the Parliamentary Budget Office (PBO) eased in the third quarter overall, although it remains very high in historical terms, mainly due to the deterioration of the components relating to services and retail trade in the first half of the year.

The restrictions adopted in the spring in response to the pandemic and the weakness of economic activity have had an impact on the labour market. The quarter-on-quarter recovery of economic activity in the third quarter was accompanied by a rise in employment of almost 56,000 (0.2 per cent), reflecting an increase in payroll employees (especially permanent positions) and a decline in the self-employed. October saw a slight decline in employment (around 13,000), but this did not affect the employment rate, which remained stable at 58 per cent. The unemployment rate continued to fluctuate slightly below 10 per cent in the summer, standing at 9.8 per cent in October. Wage growth in the third quarter, as measured on the basis of hourly contractual wages, remained broadly in line with the weak trend seen in the last few quarters. In October, the year-on-year increase for the economy as a whole was 0.6 per cent.

Inflation in Italy has declined by even more than in the euro area. The change in consumer prices was negative in the summer months and remained weak in November as well (-0.1 per cent year-on-year for the national index, from -0.3 per cent in October). The rate of change in the prices of energy goods remains sharply negative (-8.6 per cent), compared with a slight increase for the core component (0.4 per cent from 0.2 per cent in October), which excludes energy and unprocessed food. The inflation acquired for this year is negative for the general index (-0.2 per cent) and remains low (0.5 per cent) for the core component as well.

The forecast based on the short-term models of the PBO indicates a contraction of around three percentage points in the GDP for the final part of the year, with an extremely large margin of uncertainty. The restrictions imposed to contain the pandemic during Christmas risk penalising aggregate demand in the most important period of the year for household spending. However, the prospect of mass vaccination and a slowdown in the pace of infections could support the household and business confidence and spur an increase in planned consumption and production.

1.2 Macroeconomic forecasts

1.2.1 The Government's scenario

The forecasts for this year in the macroeconomic scenario contained in the EFD Update have been revised downwards compared with those in the Economic and Financial Document (EFD), following a more prolonged lockdown and the more gradual relaxation of restrictive measures than expected in spring. The trend macroeconomic scenario in the EFD Update projects a contraction in GDP of 9.0 per cent this year, reflecting the dramatic reduction in growth in the first half, a fall unprecedented in times of peace. For 2021, the scenario on current legislation basis forecasts a strong rebound, which would make it possible to recover half of this year's loss. About four-fifths of the reduction in GDP in 2020 is attributable to internal demand components, compared with the unfavourable but more limited contribution of net exports. The change in inventories would essentially be neutral. The capital accumulation process experienced an abrupt interruption this year. On the foreign demand side, the marked decrease in exports amply exceeds the contraction in international trade and that in Italy's key markets. The decline in imports was also very steep, but still smaller than that in exports, producing a slightly negative contribution of foreign trade to GDP growth.

After the large budget expansion this year, the primary deficit would decrease rapidly in 2021 in the current legislation scenario. To mitigate this restriction, the EFD Update considers an expansionary budget, benefiting in part from the use of resources from the Recovery Plan. The forecasts in the EFD Update show net borrowing expanding compared with the current legislation scenario, rising by 1.3 percentage points of GDP in 2021 and 0.6 points the following year; in 2023 there would instead be a slight budget tightening (0.3 points of GDP). In addition to the new measures financed in deficit, others would be funded using the additional resources of the NGEU programme, in particular under the Recovery and Resilience Facility and the REACT-EU programme.

The overall impact of the budget package for 2021 would bring the GDP growth estimated in the EFD Update to 6.0 per cent (Table 1.2), almost one point more than the trend scenario. The strengthening of economic activity in the policy scenario is mainly attributable to investment and, to a lesser extent, to consumption expenditure, both by households and general government. Exports remain almost unchanged compared with the current legislation scenario, while imports accelerate, so the balance of payments on current account deteriorates. The impact of the faster growth on costs and prices are limited; the consumption and GDP deflators increase only marginally with respect to the trend macroeconomic scenario. As a result, the change in nominal GDP in 2021 is slightly higher than that in real growth.

Table 1.2 – Policy macroeconomic scenario in the EFD Update and the DBP (1)

	2020		2021		2022		2023	
	Update	DBP	Update	DBP	Update	DBP	Update	DBP
GDP and demand								
GDP	-9.0	-9.0	6.0	6.0	3.8	3.8	2.5	2.5
Imports	-13.8	-13.8	8.8	8.8	6.0	6.0	3.8	3.8
Consumption of households and non-profit	-8.9	-8.8	5.5	5.7	3.7	3.7	2.3	2.3
Expenditure of general government	2.0	2.9	1.2	0.8	-0.2	-0.2	-0.4	-0.4
Investment	-13.0	-14.0	10.6	10.6	8.5	8.3	5.9	5.9
Exports	-17.4	-17.3	9.6	9.6	5.7	5.7	3.5	3.5
Contribution to GDP growth								
Net exports	-1.5	-1.5	0.3	0.3	0.0	0.0	0.0	0.0
Inventories	0.0	-0.1	0.2	0.2	0.0	0.0	0.0	0.0
Domestic demand net of inventories	-7.4	-7.4	5.4	5.5	3.8	3.7	2.4	2.4
Prices								
Import deflator	-3.5	-3.5	1.1	1.1	1.1	1.1	1.3	1.3
Export deflator	-0.4	-0.4	0.6	0.6	1.1	1.1	1.2	1.2
GDP deflator	1.1	1.1	0.8	0.8	1.3	1.3	1.2	1.2
Nominal GDP	-8.0	-8.0	6.8	6.8	5.1	5.1	3.7	3.7
Consumption deflator	0.0	0.0	0.7	0.7	1.2	1.2	1.2	1.2
Labour market								
Unemployment rate	9.5	9.3	10.3	9.8	9.5	-	8.7	-
Assumptions for international variables								
World trade	-11.5	-11.5	8.6	8.6	5.7	-	4.0	-
Oil price (FOB, Brent)	42.4	42.4	48.1	48.1	49.7	-	51.0	-
Dollar/euro exchange rate	1.14	1.14	1.19	1.19	1.19	-	1.19	-

Source: DBP, October 2020; EFD Update, September 2020.
(1) Percentage changes, except for contributions to GDP growth (percentage points), unemployment rate, exchange rate and oil price. As a result of rounding growth rates to nearest decimal point, the sum of changes in quantities in volume terms and the associated deflators may not equal nominal changes.

In the final two years of the forecast, the EFD Update policy scenario indicates a very gradual slowdown in GDP, where the rates of change (3.8 and 2.5 per cent in 2022 and 2023 respectively) are sharply higher than historical averages. On the basis of these dynamics, GDP would return to around pre-crisis levels in 2022. Compared with the current legislation scenario, the largest contribution to growth comes from domestic demand, while that from net exports declines due to the recovery of imports. Investments are the component that benefits most from the budget measures and the Recovery Plan. Private consumption rises compared with the trend scenario, while general government spending is slightly lower due to the end of the health emergency. Nominal GDP growth exceeds that in the trend scenario both in 2022 and 2023 and is slightly higher than real growth as a result of modest inflationary pressures.

The macroeconomic forecasts in the DBP differ slightly from the policy forecasts in the EFD Update. The differences reflect revisions of the quarterly accounts (published by Istat on 2 October 2020) and new information on the labour market. The divergences with the macroeconomic scenario in the EFD Update therefore mainly concern the estimates for the current year (Table 1.2). The forecasts for the main macroeconomic aggregates are unchanged on those in the EFD Update, while there are small changes in the components. For 2020, the decline in GDP remains at 9.0 per cent, with a slightly better outlook for consumption and a larger decline in investment, especially in construction. General government expenditure in 2020 is higher than previously forecast, while it has been revised downwards in 2021. Overall, the contributions to growth of the domestic and foreign demand components remain virtually unchanged on the previous figures. The nominal dynamics are also unchanged, while labour market trends appear slightly more optimistic: the unemployment rate is two-tenths of a point lower in 2020 and five-tenths in the remaining years of the forecast horizon.

The DBP scenario for 2021 incorporates the impact of the budget package and the funds from the NGEU programme, increasing GDP growth to 6.0 per cent, almost one percentage point higher than the trend scenario. The forecast for GDP growth for next year is unchanged on that in the EFD Update, while among the components there are slight differences in consumption, both private and public. The main price developments are also unchanged compared with those in the EFD Update, while the unemployment rate next year would rise less than expected in the September document.

1.2.2 Endorsement exercise

The PBO performed its institutionally mandated endorsement exercise for the macroeconomic forecasts in the 2020 EFD Update, which comprise a trend scenario on a current legislation basis and a policy scenario. The exercise was conducted by the PBO with the customary methodology, based on a comparison of the MEF scenarios with four separate forecasts, using shared assumptions for the international exogenous variables and the public finance measures. The time horizon of the exercise includes the current year and the following one, while a non-binding assessment is provided for the 2022-2023 period (in this regard see the proposal formulated in section 1.2.3).

The endorsement exercise for the EFD Update is performed on the basis of a comprehensive analysis of the MEF's macroeconomic scenarios, drawing on a variety of information sources: 1) the PBO forecasts for short-term developments in GDP and the components of demand; 2) the annual forecasts obtained by the PBO using the PBO-Istat econometric model, used within the scope of the framework agreement with that institution; 3) the annual forecasts produced specifically by the independent forecasters (CER, Prometeia and REF.Ricerche) that make up the PBO forecasting panel; and 4) monitoring of the most recent projections available from other national and international institutions. An analysis of the internal consistency of the schedules produced by the MEF with the set of international exogenous variables was also performed. The overall assessment, based on these instruments, naturally takes account of the uncertainty that characterises the forecasts. In order to perform a like-for-like comparison with the MEF's projections, the assessments of the PBO panel members (including the PBO's projections) were formulated on the basis of the same assumptions for exogenous international variables adopted by the MEF. In addition, for the policy scenario, the PBO panel adopted the same assumptions used for the budget package for 2021-2023, developed by the PBO taking account of the content of the

EFD Update and certain information received from MEF on the differences between the public finance assumptions incorporated in the policy scenario and those in the trend scenario.

On 21 September, the PBO transmitted its endorsement of the 2020-2021 trend macroeconomic scenario, providing a positive assessment of the plausibility of the Government's forecasts, but at the same time noting the significant risks to which GDP growth is exposed as well as the optimism of the forecasts for 2022-2023.[1] Overall, the GDP forecast in the trend macroeconomic scenario of the EFD Update for 2020-2021 lay within an acceptable range for endorsement. For 2021, the MEF's forecast for economic growth appeared to be prudential in annual terms, however, there was considerable uncertainty about the short-term forecasts, which have a significant statistical carry-over impact on the following year.

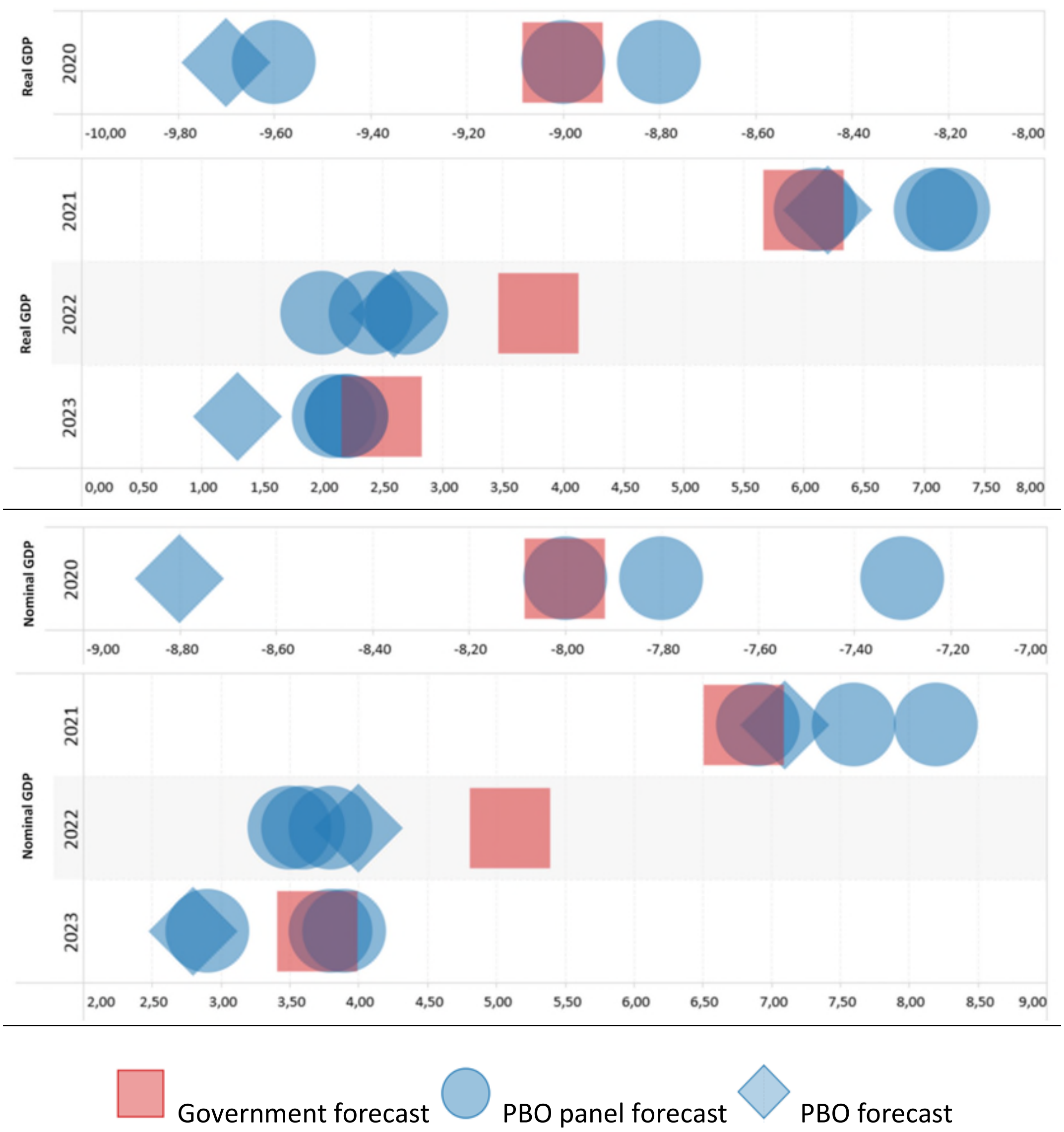
With regard to the determinants of growth in the trend macroeconomic framework, the MEF's estimate of the sharp contraction in capital accumulation this year lay near the lower bound of the PBO panel range. The variation in household consumption fell within the extremes of the panel estimates, however it was smaller than that estimated by three of the four forecasters and was close to the upper bound. The change in general government expenditure was similar to the median value produced by the panel. The contribution of net exports to GDP growth did not differ significantly from the median of the PBO panel estimates. In 2021 the evolution of the main variables in the MEF's macroeconomic scenario was consistent with the forecasts of the PBO panel. The growth in household consumption was estimated cautiously in the EFD Update, while that in general government spending lay between the median and the upper bound of the endorsement interval. With regard to foreign trade, the expectation that exports would increase at a faster pace than international trade was shared by most of the forecasters of the PBO panel; conversely, the increase in imports was slower than the estimates of the majority of panel members. As a result, the contribution of net exports to GDP growth was above the median value of the forecasters on the PBO panel. The variables relating to costs and prices in the 2020-2021 period were generally in line with the expectations of the panel forecasters. The dynamics of the GDP deflator estimated by the MEF for this year fell within the panel range. The change in the GDP deflator reflected the strengthening of the terms of trade induced by the sharp decline in the import deflator, a development that was essentially reflected in the forecasters' projections as well. This produced nominal GDP growth in line with the panel's expectations. The forecasts for the labour market variables over the two-year period covered by the endorsement exercise did not differ significantly from those of the panel of PBO forecasters.

The trend forecasts in the EFD Update for GDP growth in 2022-2023 (equal to 3.0 per cent and 1.8 per cent respectively) appeared optimistic, laying above the upper bound of the panel's range of forecasts for 2022. This result reflected a strong contribution of domestic demand, with particular regard to capital accumulation, which increased by almost five percentage points, exceeding the upper limit of a very broad range of forecasts by the panel. With regard to labour market variables, employment growth in the MEF trend macroeconomic scenario was close to the upper bound of the panel's forecasts in 2022, with a non-negligible deviation in 2023. The unemployment rate forecast also seemed favourable, lying just above the lower bound of the PBO panel forecasts.

[1] The endorsement letter is available at: https://en.upbilancio.it/wp-content/uploads/2020/12/Lettera-e-allegato-validazione-QMT-NADEF-2020_EN.pdf.

As regards the policy scenario in the EFD Update, the endorsement exercise concerned 2021, when economic policy measures will be activated. The PBO conducted an overall analysis of the government's macroeconomic forecast, deciding to endorse the EFD Update's policy scenario, which appeared to fall within an acceptable range (Figure 1.3).[2] The analysis supporting the plausibility of the policy macroeconomic scenario in the EFD Update was supported by: a) forecasts for real and nominal GDP growth in 2021 that were close to the lower bound of the forecast interval produced by the PBO panel; b) similar estimates by the EFD Update and the PBO panel of the impact of the budget package on economic activity in 2021; and c) an acceleration of GDP forecast by the MEF between 2020 and 2021 that was substantially shared by the members of the PBO panel, as well as

Figure 1.3 – Policy macroeconomic scenario forecasts



2 The endorsement letter is available at: https://en.upbilancio.it/wp-content/uploads/2020/12/UPB_Lettera-validazione-QMP-NADEF-2020_EN.pdf.

by the other main forecasters. However, many risk factors – already noted with regard to the trend macroeconomic scenario – remain, making the forecasts for 2021 highly uncertain.

With regard to the determinants of growth for next year, the policy macroeconomic scenario in the EFD Update was characterised by the support provided by domestic demand. However, the forecast expansion in national final consumption spending was below the lower bound of the panel interval, while the forecast for capital accumulation lay within the range of variation of the PBO panel. With a more prudent forecast for the evolution of exports than the median estimates produced by the panel, the contribution of net foreign demand to GDP growth was positive, while the median of the panel was negative.

The inflation forecasts for 2021 indicated in the policy macroeconomic scenario in the EFD Update were consistent with those of the panel. Since the projection for real growth was lower than the median value of the PBO panel, the Update's estimate of the nominal GDP growth rate in 2021 did not diverge significantly from the lower bound of the panel forecasts.

While the MEF's policy macroeconomic scenario for next year appeared acceptable in the light of the estimates produced by the PBO panel, that for the following two-year period retained and amplified the concerns already raised with regard to the trend scenario. The forecasts for economic activity in 2022-2023, which in any case have a significant impact on the public finances, appeared optimistic. The forecast for real GDP growth in the Government's policy macroeconomic scenario was considerably higher than the upper bound of the PBO forecasters in 2022 and exceeded it to a lesser extent in 2023. In 2022, the excess real growth in the EFD Update's macroeconomic scenario compared with the PBO panel estimates essentially reflected the faster growth in the domestic demand components, comprising both household consumption and investment. In 2023, the faster GDP growth than the panel median was attributable to the contribution of domestic demand. The expectations for inflation in the final two years of the forecast horizon lay within the range of the panel's projections, but the excessive optimism for real growth was reflected in a nominal GDP rate in 2022 that exceeded the upper bound of the panel's forecasts. Finally, note that in 2022-2023, the macroeconomic scenario in the EFD Update offered a relatively optimistic outlook for labour market variables. Employment growth in 2022 (in terms of full time equivalents) slightly exceeded the upper bound of the panel estimates, while exceeding the limit more sharply in the following year.

Since the date of publication of the EFD Update, there has been a resurgence of the COVID-19 pandemic, which necessitated the imposition of new measures restricting mobility and economic activity, although the stringency of the response has differed at the regional level based on the severity of the health emergency. Economic indicators, which had rebounded quickly immediately after the end of the lockdown, began to deteriorate again (as indicated in section 1.1.2). According to our estimates, GDP is expected to contract by about three percentage points this quarter. For 2020 as a whole, GDP is forecast to decline by about nine percentage points, in line with the forecasts of the MEF given in the EFD Update and the DBP. The negative surprise in the fourth quarter would essentially offset the rebound in the summer with regard to the change in GDP in 2020 and undermines the outlook for 2021. Even in the event of a rapid recovery beginning in the spring, the Government's policy forecast for GDP growth of 6.0 per cent in 2021 seems difficult to achieve. The forecasts published in November by institutional and private forecasters point to GDP growth for the Italian economy next year of between 3.5 and 5.0 per cent (Table 1.3). On the occasion of the endorsement exercise for the macroeconomic scenario in the EFD Update, the PBO had forecasted a pace of GDP growth in 2021 similar to that indicated by the MEF. However, the slowdown emerging for this quarter will reduce the outlook for growth by at least one percentage point.

1.2.3 An assessment of the endorsement of the macroeconomic forecasts presented in the EFD Update

The excessive optimism found by the PBO in the growth forecasts for the final years of the forecast period calls for an assessment of the practice adopted since the start of the PBO's activity in the autumn of 2014 of using different horizons for the endorsement exercise between the spring and autumn sessions.

In the spring, on the occasion of the presentation of the EFD, the PBO conducts its endorsement exercise over the entire time horizon of that document (current year and the subsequent three), while in the autumn the endorsement of the EFD Update involves the current and following year only.

This structure is based on the characteristics of the DBP, introduced in 2013 with the Two-Pack (Regulation 473/2013) in order to transmit the details of the budgetary measures adopted by the Member States to the European institutions in mid-October.

Table 1.3 – A comparison of forecasts of Italian GDP growth

	GDP		
	2020	2021	2022
Bank of Italy (1) - December 2020	-9.0	3.5	3.8
Oxford Economics (1) - December 2020	-8.8	4.8	4.0
OECD (1) - December 2020	-9.1	4.3	3.2
Consensus Economics - December 2020	-9.0	4.9	-
CER (1) (2) - November 2020	-8.5	4.4	3.2
Prometeia (1) - November 2020	-9.0	5.0	-
European Commission - November 2020	-9.9	4.1	2.8

(1) Adjusted for number of working days. – (2) Trend scenario.

European legislation treats the DBP as a document implementing the planning framework approved in the spring with the Stability Programme-EFD, designed primarily to acquire information relating to the current year and the next.[3] The *Guidelines on the format and content of draft budgetary plans*,[4] a document that details the minimum contents of the tables in the DBP, also requires the Member States to submit information for the previous, current and following year. This "minimalist" approach was confirmed in the initial DBPs submitted by the Italian Government to the EU, which mainly contained tables with information for two years.

In light of the role of the endorsement exercise in the context of European surveillance,[5] it was therefore decided to conduct the endorsement exercise for the EFD Update over a different horizon from that adopted in the spring with the EFD, i.e. over the relevant time period at the European level (the current and subsequent year).

Institutional developments in recent years have in fact diverged from the original intentions. The programming contained the EFD in April has been regularly redesigned in the autumn, and the DBP has become the document with which the Italian government transmits its medium-term plans to the institutions of the European Union. This has been reflected in the progressive extension of the temporal scope of the tables contained in Italy's DBP.

In light of this evolution, the rationale for the initial differentiation of the endorsement time horizon between the two documents would no longer hold.

Accordingly, the PBO Board feels that it would be advisable to extend the endorsement of macroeconomic forecasts to the entire three-year forecast period in the EFD Update as well, in order to reinforce prudence in public finance scenarios.

3 The draft central government budget for the following year and the main parameters of the draft budgets of all other subsectors of general government are published by 15 October each year.

4 https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf

5 The endorsement letter of the independent fiscal institution is attached to the documents transmitted to the European institutions.

Box 1.1 – Pandemic, social distancing and growth in Italy

In the first half of December,[6] at the height of the second wave of the pandemic, the number of people infected worldwide by the SARS-CoV-2 virus had exceeded 73 million, with over 1.6 million deaths. In Italy, the virus has been contracted by more than 1.8 million inhabitants, with over 62,000 deaths. Economic activity has suffered a global shock not experienced since the Great Depression:[7] according to the most recent estimates by major international institutions,[8] the world economy is expected to contract by between 4.2 and 4.4 per cent in 2020, with Italy's GDP falling by more than twice that. The recession is attributable both to the restrictions on supply, due to the partial or total closure of certain economic activities, and to the reduction in demand resulting from uncertainty, the contraction in disposable income and the need for social distancing. The restrictions and distancing measures have made it possible to "bend" the coronavirus curve but have also slowed economic activity significantly.

There is currently no unanimous consensus in the literature attributing the main cause of the recession to compulsory social distancing. In fact, some studies assign a preponderant role to voluntary social distancing, adopted by individuals in order to reduce the chances of contagion.[9] In this box we seek to analyse both the relationship between the social distancing measures and the spread of the pandemic, and that between the restrictions imposed and economic activity. It is therefore intended to examine the trade-off faced by national authorities between containing the pandemic and continuing economic activity.

To this end, we consider three indicators that encapsulate the phenomena being analysed. As regards social distancing, we use the stringency index (SI) developed by the University of Oxford, which measures (on a scale from 0 to 100) the severity of the social distancing measures adopted by national authorities in order to contain the spread of the coronavirus.[10] To track the spread of the virus, we use the R_t index (the effective reproduction number), which represents the average number of individuals that a single infected person can infect. The R_t index is estimated using the methodology suggested by Cori et al (2013)[11] and is one of the 21 indicators monitored by the Italian government to determine the level of pandemic risk at the national and regional level. Finally, as a high-frequency measure of economic activity, we use a weekly economic indicator (WEI), specifically estimated with a factor model that includes real-time cyclical variables, such as electricity consumption and mobility data measured by Google.[12] The database is daily and can be updated with minimal lag, which enables the monitoring of phenomena in near real time.

Figure B1.1.1 shows the inverse relationship between developments in the R_t index and the stringency index (SI). The measures adopted in response to the health emergency do not have an immediate effect, but rather unfold with the passage of time, with the greatest effectiveness being achieved after three weeks.[13] During the first wave of the pandemic, the containment measures raised the SI index just below 100, managing, within a month, to lower the R_t index below 1 from a value of about 3.7 at the beginning March. The second wave was less virulent than the first,

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6 At 7 December.

7 International Monetary Fund (2020) "World Economic Outlook: The Great Lockdown", April.

8 International Monetary Fund, European Commission and Organisation for Economic Cooperation and Development.

9 See, for example, Chen, Pierri and Presbitero (2020) "Tracking the economic impact of COVID-19 and mitigation policies in Europe and the United States", Covid Economics, No. 36, 10 July.

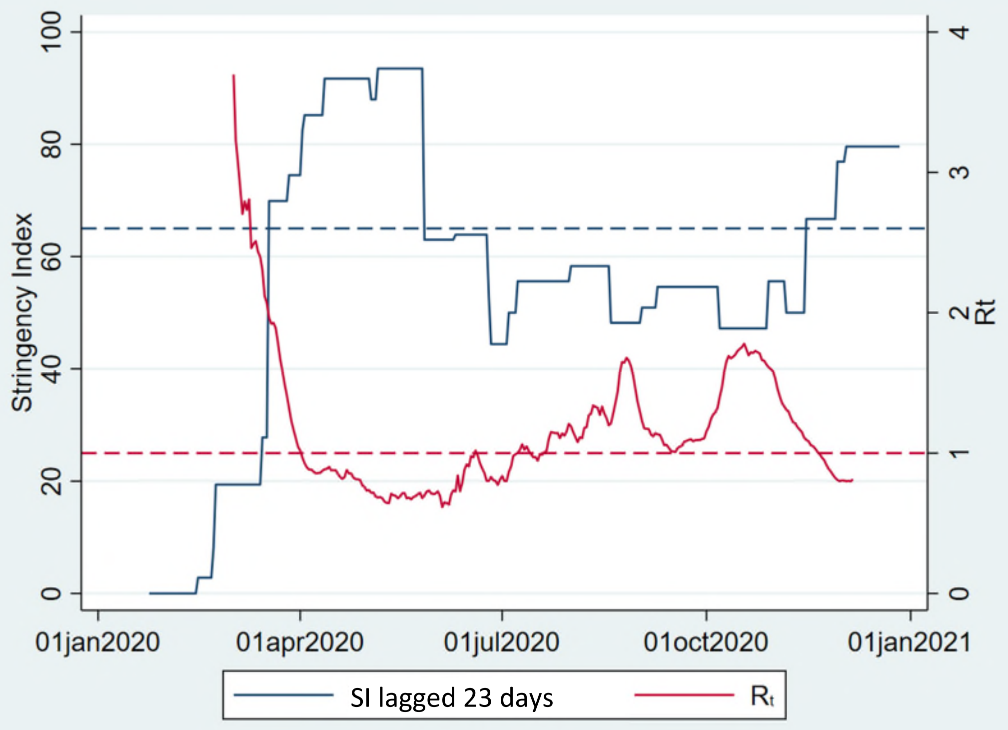
10 Hale, Angrist, Cameron-Blake, Hallas, Kira, Majumdar, Petherick, Phillips, Tatlow and Webster (2020). "Oxford COVID-19 Government Response Tracker", Blavatnik School of Government.

11 Cori, Ferguson, Fraser and Caucheme (2013) "A new framework and software to estimate time-varying reproduction numbers during epidemics", American Journal of Epidemiology, Vol. 178, No. 8.

12 Google, https://www.google.com/covid19/mobility/?hl=en-GB.

13 A cross-correlation analysis shows that the two indicators have a maximum correlation – in absolute value – by the 34th day, but the correlation is at 95 per cent of the maximum already by the 23rd day.

Figure B1.1.1 – Stringency Index and R_t (1)



Fonte: Oxford University - Blavatnik School of Government; stime UPB su dati del Dipartimento della Protezione civile.
(1) l'indice SI è spostato in avanti di 23 giorni per evidenziare il ritardo con il quale questo agisce su la diffusione del virus.

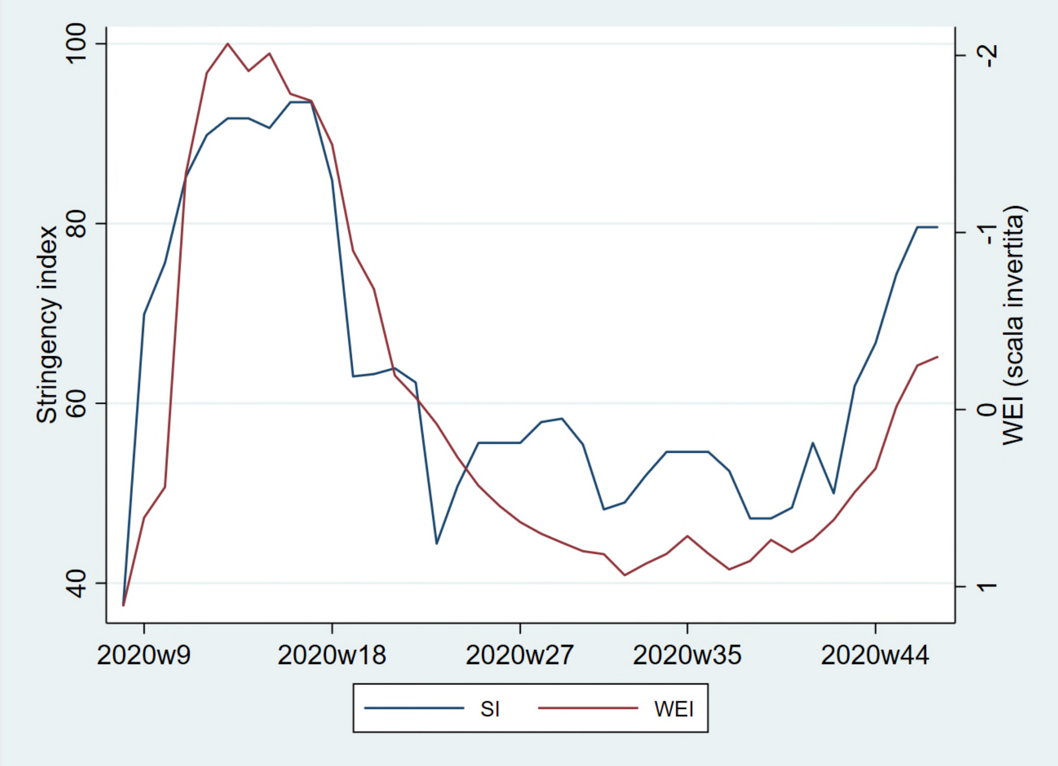
and containment measures were consequently less restrictive. A threshold value for the SI (around 65) seems to emerge from the chart, above which the potential for spreading the virus is dampened.

As regards the impact of the measures captured by the SI on economic activity, a high-frequency factor model is used and the common underlying weekly component is extracted. Figure B1.1.2 shows developments in the SI level and the WEI indicator (with inverted scale). There is a high correlation between the two indicators (0.88). Although correlation does not imply causation, the Granger test indicates that, as expected, the link goes from SI to WEI and not in the opposite direction.[14]

The analysis seems to suggest that in order to have a substantial impact in combating the epidemic, restrictions must be activated proactively, thus taking account of the significant lag with which the effects become manifest. Since the impact on economic activity is felt very quickly, it is useful to continuously modulate the restrictions, while differentiating them on a territorial basis so as to minimize economic costs.

14 More specifically, the Granger causality test was performed after the estimation of a bivariate vector autoregression model with two lags, determined previously with a specific test. The Granger test rejects the null hypothesis that WEI causes SI, but does not reject the null hypothesis that SI causes WEI.

Figure B1.1.2 – Stringency Index e WEI



2. THE PUBLIC FINANCES

2.1 Public finances in 2020 within the context of the health emergency

In 2020, the effects of the pandemic on the economy and the public finances interrupted the improvement in the public accounts, sharply impacting their dynamics. According to official estimates, the general government deficit, after having been equal to 1.6 per cent of GDP in 2019, is expected to be slightly above 10.8 per cent for 2020, while the debt should rise from 134.7 per cent of GDP in 2019 to 158 per cent.

Since last March, there have been various requests for deviation from the path of adjustment of the public accounts (Table 2.1), numerous anti-crisis measures (Table 2.2) and revisions of the estimates for the public finance aggregates (Table 2.3). In a context in which the European Central Bank (ECB) has implemented a range of expansionary monetary policy measures in order to preserve the flow of credit to households and firms, ensure favourable liquidity conditions and support financial stability at the euro-area level (see section 2.4.1), the Government has implemented a series of extraordinary initiatives.

The first significant response of the euro area to the financial consequences of the crisis sparked by COVID-19 was in fact provided by the ECB. Starting with its meeting of 12 March 2020, the Governing Council of the ECB announced a series of expansionary monetary policy measures. In particular, it first strengthened its Asset Purchase Programme (APP) and then introduced a new programme for the purchase of public and private securities for the pandemic emergency (Pandemic Emergency Purchase Programme, PEPP).

At the national level, Reports prepared pursuant to Article 6 of Law 243/2012 to authorise update of public finance objectives and, thus, the adoption of Decree Laws to counter the health and economic consequences of the pandemic have been presented to Parliament during the course of the year (Table 2.1).

Table 2.1 – Deviations requested in Reports to Parliament – 2020
(billions of euros)

	Net balance to be financed	Borrowing requirement	Net borrowing
Supplemental Report of 11 March (a) (1)	-25.0	-25.0	-20.0
Report of 24 April (b) (2)	-155.3	-65.3	-55.3
Report of 23 July (c)	-32.0	-32.0	-25.0
Report of 20 November (d)	-5.0	-8.0	-8.0
Total deviations requested	**-217.3**	**-130.3**	**-108.3**

Source: Reports to Parliament pursuant to Article 6 of Law 243/2012.
(1) The first Report to Parliament of 5 March 2020, which requested a deviation of €6.35 billion in terms of net borrowing and €7.5 billion in terms of the net balance to be financed was subsequently supplemented on 11 March with a request to increase those figures to the levels indicated in the table. – (2) For the net balance to be financed and the borrowing requirement, it was assumed that the deviation requested for increased interest expenditure, equal to €0.33 billion, was equal to that indicated in terms of net borrowing in the April Report.

The Report to Parliament provided for under Law 243/2012 is used by the Government to request parliamentary authorisation to update public finance objectives with respect to previous authorisations. Law 243/2012, Article 6, paragraph 3, defines the conditions and the procedure to be followed in the event of an exceptional event, in compliance with Article 81 of the Constitution. If, in order to respond to an exceptional event, the Government deems it indispensable to temporarily depart from the policy objective, after consulting the European Commission, it may present a report to the Houses of Parliament with which it updates the policy public finance objectives, as well as a specific request for authorisation indicating the scale and duration of the deviation, establishes the purposes for which the resources made available as a result of the deviation will be allocated and defines an adjustment plan for returning to the path towards the policy objective, basing its duration on the seriousness of the events. Convergence towards the policy objective shall begin as from the fiscal year following those for which the deviation is authorised, taking account of developments in the economic cycle. The resolution by which each House authorises the deviation and approves the adjustment plan is adopted by an absolute majority of their respective members. Paragraph 5 provides that the adjustment plan may be updated in the same manner outlined above in the event of the occurrence of further exceptional events or if, in relation to developments in economic conditions, the Government intends to make changes.

This occurred in circumstances where the general escape clause (GEC) provided for in the Stability and Growth Pact (SGP) was invoked at the European level, allowing Member States to temporarily deviate from the adjustment path towards the medium-term budgetary objective (MTO), provided that this does not undermine fiscal sustainability, as the epidemic has triggered a severe recession in the euro area and in the European Union as a whole.

The Council of the Union of March 23 activated the GEC provided for in the SGP for this year, concurring with the Commission’s assessment that the conditions for its use had been fulfilled, considering that the epidemic would cause a severe recession in the euro area and throughout the European Union as a whole. The clause, introduced in 2011 with the Six-Pack, regards both the preventive and the corrective arms. With regard to the preventive arm, Regulation 1466/97, Articles 5(1) and 9(1), establishes that, in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed to temporarily depart from the adjustment path towards the MTO, provided that this does not endanger fiscal sustainability. As regards the corrective arm, Regulation 1467/97, Articles 3(5) and 5(2), establishes that, in the event of a severe economic downturn for the euro area or the Union as a whole, the Council may decide, on a recommendation from the Commission, to adopt a revision of the path for reducing the deficit below the 3 per cent threshold for a Member State already in an excessive deficit procedure. The Commission then established that the budgetary impact of the measures that countries are taking to support the health system and the economy will be excluded from the Commission’s assessment of Member States’ compliance with the SGP, since the COVID-19 emergency is an event beyond the control of national authorities with a significant impact on the public finances. The Commission specified that the application of the clause does not suspend the procedures of the SGP, but will allow the Commission and the Council to take the necessary policy coordination measures within the framework of the Pact, while departing from the budgetary requirements that would normally apply. According to the Council, recourse to the clause will give the Member States the needed budgetary flexibility to take all necessary measures in response to the emergency to support their health systems and the economy with discretionary stimulus measures, which must be timely, temporary and focused. Note that the GEC "will remain active" in 2021 as well.[15]

The most substantial measures from a financial point of view (implemented through Decree Laws 18, 23, 34 and 104 and worsening the deficit by about €100 billion) to tackle the major health consequences and socio-economic issues connected with the progressive tightening of social distancing measures, culminating in the suspension of a range of activities, were activated by the Government by August on the basis of the deviations requested in the March, April and July Reports (Table 2.2).

The vast majority of the measures were of an emergency nature, providing temporary support to virtually all economic actors (workers, households and firms) thanks to the implementation of a wide range of instruments – such as the establishment of new funds, non-repayable grants, tax credits, tax relief, liquidity support for businesses – some of which incorporating greater eligibility requirements that limit access and differentiate benefits in relation to the severity of the impact of the crisis on the business or directly targeting some specific industries especially hard-hit by the spread of COVID-19.

The resurgence of the pandemic at the end of the summer required the deployment of additional urgent measures to contain the spread of the virus and manage the emergency. In particular, a series of decrees were issued by the President of the Council of Ministers

Table 2.2 – Anti-crisis Decree Laws in 2020: impact on public finance balances *(billions of euros)*

	Net balance to be financed	Borrowing requirement	Net borrowing
DL 18/2020 (Cure Italy Decree), 17 March (a)	-24.8	-18.6	-20.0
DL 23/2020 (Liquidity Decree), 8 April (b)	-0.1	0.5	-0.1
DL 34/2020 (Revival Decree), 19 May (c) (1)	-154.7	-68.4	-55.3
DL 104/2020 (August Decree), 14 August (d)	-30.9	-30.8	-24.9
DL 137/2020 (1st Relief Decree), 28 October (e)	0.2	-3.5	-3.3
DL 137/2020 use of savings on authorised deviations (e')	*0.0*	*3.5*	*3.3*
DL 149/2020 (2nd Relief Decree), 9 November (f)	0.1	-0.2	-1.6
DL 149/2020 use of savings on authorised deviations (f')	*0.0*	*0.3*	*1.7*
DL 154/2020 (Third Relief Decree), 23 November (g)	0.0	-0.4	-0.4
DL 154/2020 use of savings on authorised deviations (g')	*0.0*	*0.4*	*0.4*
DL 157/2020 (4th Relief Decree), 30 November (h)	-4.5	-4.4	-8.0
Total effects of decrees (i=a+b+c+d+e+f+g+h)	**-214.8**	**-125.9**	**-113.6**
Total use of savings on authorised deviations (l=e'+f'+g')	*0.0*	*4.2*	*5.4*
Total effects net of savings used (m=i-l)	**-214.8**	**-121.7**	**-108.2**

Source: the summary of financial effects attached to the Decree Laws cited.
(1) The impact on the borrowing requirement is €3.4 billion greater than the €65 billion deviation requested, net of interest expenditure, with the April Report to Parliament: it was funded through the partial use of the excess authorisation under Decree Law 18/2020.

[15] Statement of the Eurogroup of 16 December 2020: https://www.consilium.europa.eu/en/press/press-releases/2020/12/16/eurogroup-statement-on-the-draft-budgetary-plans-for-2021/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Eurogroup+Statement+on+the+Draft+Budgetary+Plans+for+2021.

(Prime Ministerial Decrees of 13 October 2020, 18 October 2020 and 24 October 2020) that imposed increasingly stringent limitations, including the division of the country into three zones with the Prime Ministerial Decree of 3 November 2020. This latter measure incorporates and extends the measures already adopted with the previous Prime Ministerial Decrees, introducing further restrictions on permissible activities while differentiating limits by geographical area in order to take account of the level of contagion risk and the severity of the pandemic management scenario, as established by order of the Minister of Health on the basis of monitoring epidemiological data.

Further measures were then developed in the first three so-called “Relief” Decree Laws (Decree Laws 137, 149 and 154), which were partially funded with the savings deriving from limited non-implementation of the measures contained in the previous decrees. The new decrees did not require the authorisation of new deviations as deterioration in the deficit connected with the decrees were offset, for net borrowing, by the use of savings on the deviations authorised by Parliament and, for the net balance to be financed, by reductions in previous spending authorisations. Once the resources made available under the first three deviations were exhausted, a further Report was required, which was presented to Parliament on 20 November to request a new deviation of €8 billion to enable the approval of the fourth Relief Decree (Decree Law 157) in anticipation of continuing the policy of containing the risks of infection until the end of the year. This made it necessary to implement measures to support the sectors and regions most disadvantaged by restrictive health measures and to support workers and businesses more dependent on the economic activities during the Christmas period than other periods of the year. The effects in terms of net borrowing therefore reached €108.2 billion, considering the initial estimated impact of the decrees from which the use of savings on the authorised deviations is to be subtracted (Table 2.2).

The estimate of net borrowing was revised multiple times during the year in reflection of consideration of the effects of the measures adopted and the monitoring and revision of the public accounts (on the occasion of the publication of the policy budget document for 2021 and the presentation of the November Report to Parliament), with fluctuations of between about 7 per cent of the estimate contained in the April EFD and the most recent estimate, which envisages a deficit of slightly more than 10.8 per cent of GDP (Table 2.3).[16]

It can be helpful to retrace developments during the year on the basis of official documentation and the summary of the financial effects of the Decree Laws issued in response to the COVID-19 emergency.

[16] See the hearing of the Minister for the Economy and Finance of 23 November 2020 on the Budget Bill for 2021-2023, which indicated – while acknowledging the high degree of uncertainty surrounding forecasts for this year – that the updated estimates for 2020 do not substantially modify the scenario delineated in the EFD Update, page 7.

Table 2.3 – Revisions of general government net borrowing and nominal GDP during 2020
(percentage of GDP)

	Net borrowing	% change in nominal GDP
2020 EFD trend (includes decree laws 18 and 23 of 2020) (a)	7.1	-7.1
2020 EFD with new policies (trend + DL 34/2020) (b)	10.4	-7.1
2020 EFD with new policies + DL 104/2020 (c)	11.9 (1)	-7.1
2020 EFD Update (update of macro and public finance scenario) (d)	10.8	-8.0
2021 DBP (2020 Update + public accounts monitoring data) (e)	10.5	-8.0
2021 DBP + DL 137/2020 (f)	10.7	-8.0
2021 DBP + decree laws 137 and 149 of 2020 (g)	10.8 (2)	-8.0
2021 DBP + decree laws 137, 149 and 154 of 2020 (includes additional public accounts monitoring data) (h)	10.4 (2)	-8.0
2021 DBP + decree laws 137, 149, 154 and 157 of 2020 (i)	>10.8	-8.0

Source: based on data in official documentation and the summary of financial effects attached to the Decree Laws cited.
(1) Net borrowing indicated in the Report to Parliament of July 2020. – (2) Net borrowing indicated in the Report to Parliament of November 2020.

The March and April Reports, the 2020 EFD and the "Cure Italy", "Liquidity" and "Revival" decrees issued before the summer. With an initial Report dated 5 March 2020,[17] supplemented on 11 March in light of the epidemiological emergency, the Government requested authorisation for a deviation of €20 billion in 2020 in terms of net borrowing (the amount was about €25 billion in terms of the borrowing requirement and the net balance to be financed,) compared with the path of adjustment of the structural balance towards the MTO indicated in the Report to Parliament of 30 September 2019 approved by the two houses of Parliament, respectively, on 9 and 11 October 2019. As a result of the Supplemental Report of 11 March, Decree Law 18/2020 was issued (Table 2.1, line (a)).

The 2020 EFD then updated the scenario with the forecasts on a current legislation incorporating the effects of Decree Law 18/2020 (the "Cure Italy Decree")[18] and Decree Law 23/2020 (the "Liquidity Decree"),[19] showing a rapid increase in the public deficit for 2020 (Table 2.2, lines (a) and (b) and Table 2.3, line (a)). The estimate of trend general government net borrowing increases from 1.6 per cent of GDP last year to 7.1 per cent in 2020, with a significant deterioration in the primary balance, which is forecast to slip into

[17] See Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio ai fini dell'attività conoscitiva preliminare all'esame della Relazione al Parlamento predisposta ai sensi dell'Articolo 6 – c. 5 – della L. 243/2012", 10 March.
[18] See Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio sul DDL AS 1766 di conversione del DL 17 marzo 2020, n. 18 recante misure di potenziamento del Servizio sanitario nazionale e di sostegno economico per famiglie, lavoratori e imprese connesse all'emergenza epidemiologica da COVID-19", 26 March.
[19] See Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio Sul DDL AC 2461 di conversione del DL 8 aprile 2020, n. 23 recante misure urgenti in materia di accesso al credito e di adempimenti fiscali per le imprese, di poteri speciali nei settori strategici, nonché interventi in materia di salute e lavoro, di proroga di termini amministrativi e processuali", 30 April.

negative territory, at -3.5 per cent of GDP, and with public debt rising to 151.8 per cent of GDP from around 135 per cent in 2019.

The 2020 EFD indicates that in a hypothetical scenario in which the economy was not been hit by the COVID-19 pandemic, the estimated deficit for 2020 would have been no more than 1.8 per cent of GDP thanks to the carry-over impact of the strong performance recorded in 2019 and favourable revenue developments in January and February this year.

The sudden and deep change in the public finances as a result of the pandemic can be partly understood by considering the differences between the estimates of the 2020 EFD compared with those in the explanatory Technical Report (*Nota tecnico-illustrativa*) accompanying the 2020 Budget Act, the last official document produced prior to the EFD. The fall in revenue forecast in the EFD compared with that given in the Technical Report is equal to €52.3 billion in 2020, mainly in taxes and social contributions; the increase in expenditure compared with the Technical Report is equal to €26.3 billion. Compared with 2019, total revenue would decrease by 5.8 per cent due to the recession, accompanied by an increase of 4.9 per cent in primary expenditure, of which approximately half due to the temporary effects of Decree Law 18/2020.[20]

As the pandemic emergency and the consequent economic and social costs continued, in April the Government presented a new Report together with the 2020 EFD, asking Parliament for authorisation to further modify the path of adjustment since it was felt necessary to adopt further measures not only for 2020, but also for subsequent years (Table 2.1, line (b)). The Government noted that the measures adopted to that point did not exhaust the strategy to counter the spread of the pandemic and support and relaunch the economy, and announced a new decree, Decree Law 34/2020 of 19 May, which would also be financed in deficit (Table 2.2, line (c)).

With the April Report, the Government requested authorisation to increase the general government net borrowing by an additional €55.3 billion in 2020. The effect on the general government borrowing requirement would be approximately €65.3 billion, while that on the net balance to be financed of the State budget on an accruals and cash basis amounted to about €155.3 billion.

The financial impact of Decree Law 34/2020 – in accordance with the "new policies" scenario presented in the EFD – would increase general government net borrowing from 7.1 per cent on a current legislation basis to 10.4 per cent of GDP in 2020 (Table 2.3, line

[20] For a breakdown of the new general government accounts see Parliamentary Budget Office (2020), "Audizione informale del Presidente dell'Ufficio parlamentare di bilancio nell'ambito dell'attività conoscitiva preliminare all'esame del Documento di economia e finanza del 2020", 29 April.

(b)). The public debt would increase from 151.8 per cent of GDP in the trend scenario to 155.7 per cent in 2020, almost 21 percentage points higher than in 2019.[21]

The three decrees issued before the summer (Decree Laws 18, 23 and 34) therefore envisaged measures of substantial size, increasing general government net borrowing by 4.5 percentage points of GDP in 2020. In order to provide a rapid response to the health and economic aspects of the emergency, Decree Law 18/2020 contained an initial package of measures to strengthen the capacity of the health system and support workers, households and firms. Subsequently, the Government issued Decree Law 23/2020 to respond above all to the liquidity needs of companies in order to stem further propagation of the crisis. Finally, Decree Law 34/2020 strengthened and extended the validity of some of the provisions of the two previous decrees, while also providing for new interventions of broad sectoral scope. To a very large extent these have been efforts that are still necessarily contingent and offer generalised support of a temporary nature.

Decree Law 34/2020 provides for the implementation of a vast selection of instruments, such as the establishment of new funds, non-repayable grants, tax credits, tax relief measures, and tax suspensions with temporary effects on corporate liquidity. Alongside the significant volume of measures designed to tackle the health emergency, support workers' incomes, provide resources for restoring the financial losses of businesses and the lost revenue of local authorities and many other public bodies, other measures are to varying degrees of a more structural nature. Among other things, these include interventions involving the hospital system and intensive care beds, territorial assistance and nursing staff, hiring in schools (although some of this was already planned), universities and research institutions and other investment in the field of research. But in general, given the ongoing health and economic emergency, the legislation necessarily envisages a set of measures that distribute resources to many sectors, with an immediately usable impact on current expenditure and short-term tax relief.

The July Report and the "August" Decree Law. On 23 July, with a further Report after those of March and April, the Government asked Parliament for authorisation to borrow an additional €25 billion in 2020, including higher interest expenditure to service the public debt. Given the nature of the planned measures, the effects in terms of the general government borrowing requirement and the net balance to be financed of the State budget differ, amounting to €32 billion (Table 2.1, line (c)).[22]

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[21] See Parliamentary Budget Office (2020), "Audizione informale del Presidente dell'Ufficio parlamentare di bilancio Sul DDL di conversione del DL 19 maggio 2020, n. 34 recante misure urgenti in materia di salute, sostegno al lavoro e all'economia, nonché di politiche sociali connesse all'emergenza epidemiologica da COVID-19", 27 May.

[22] See Parliamentary Budget Office (2020), "Audizione informale del Presidente dell'Ufficio parlamentare di bilancio nell'ambito dell'attività conoscitiva preliminare all'esame del Programma Nazionale di Riforma per l'anno 2020 e della Relazione al Parlamento predisposta ai sensi dell'Articolo 6, c. 5, della L. 243/2012", 28 July.

The Report estimates that including the request for €25 billion (1.5 per cent of GDP) for 2020, general government net borrowing would reach 11.9 per cent of GDP (Table 2.3, line (c)). The public debt would rise to 157.6 per cent of GDP, taking account of the difference of €32 billion (1.9 per cent of GDP) in terms of the borrowing requirement (Table 2.2). The deterioration compared with 2019 would be over 10 points of GDP for the deficit and about 23 points for the debt.

The increase in the deficit compared with the previous year would essentially reflect – to similar extents two effects. The first effect is the direct quantitative impact of the decrees already approved (4.5 points of GDP) and those in preparation (1.5 points of GDP) at the time of presentation of the Report (a total of about €100 billion). The second effect is the combination of the underlying trends in the public accounts with the impact on those accounts of the deterioration in economic conditions – especially in terms of lower revenue – connected with the lockdown measures to contain the spread of COVID-19.

The Report was followed with the issue of Decree Law 104/2020, which confirmed the measures to support employment and income with the expansion of interventions approved previously, either by extending time limits or broadening the pool of beneficiaries involved, although the instruments were made partially more selective with specific income/turnover requirements for eligibility. Measures to foster development and support local authorities were also refinanced, resources for education and health were increased and the deadlines for some tax payments extended to 2021-2022. Financial operations included the acquisition of equity interests in companies by the State and other measures to support certain industries, first and foremost tourism, which has been especially affected by the spread of COVID-19.[23]

The impact of the decree in 2020 is equal to €24.9 billion in terms of general government net borrowing, €30.8 billion in terms of the general government borrowing requirement and €30.9 billion in terms of the net balance to be financed of the State budget (Table 2.2, line (d)).

As a ratio of GDP, the decree entails a deterioration in general government net borrowing of 1.5 per cent, as indicated in the Report. The decree provides for measures that, in addition to those already deployed with Decree Laws 18, 23 and 34 of 2020, increase general government net borrowing by €100.2 billion in 2020.

The 2020 EFD Update. The EFD Update was published on 6 October, updating the trend public finance forecast given in the previous April's EFD. The new projections reflect the deterioration in the macroeconomic scenario and the favourable developments in interest rates, as well as the financial effects of the decrees issued after the EFD. More specifically, in addition to the updated macroeconomic scenario, the new trend forecasts

[23] See Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio Sul DDL n. 1925 di conversione del DL 14 agosto 2020, n. 104 recante misure urgenti per il sostegno e il rilancio dell'economia", 4 September.

take into account: 1) the financial impact on the current year of the legislative measures adopted after the presentation of the EFD, in particular, Decree Laws 34 and 104; 2) the findings of the monitoring of the public accounts during the year; and 3) the revisions released by Istat of the final figures for 2019.[24]

The forecast contraction in real GDP for 2020 was increased to 9 per cent, compared with the 8 per cent forecast in the EFD, while that in nominal GDP was revised from 7.1 per cent to 8 per cent (Table 2.3), due to the longer duration of the partial closure of economic activities and the greater spread of the virus than expected in April.

According to the EFD Update, the trend deficit, incorporating the impact of the adverse economic conditions induced by the health emergency and the measures deployed to address it, is expected to worsen by more than nine points of GDP in 2020 compared with the previous year. More specifically, the deficit would amount to 10.8 per cent of GDP in 2020 (Table 2.3, line (d)). The debt/GDP ratio is expected to rise by over twenty-three points of GDP in 2020, from about 135 per cent in 2019 to 158 per cent.

Estimated net borrowing of 10.8 per cent of GDP would be greater than the deficit, equal to 10.4 per cent of GDP, indicated in the EFD as it includes the effects (in addition to those of Decree Law 18 and Decree Law 23 of 2020) of the "new policies" that would be incorporated into Decree Law 34 from last May. However, it is lower than the figure including the impact of Decree Law 104 from last August (11.9 per cent of GDP).

Compared with 2019, the estimated deficit reflects a slight increase in interest expenditure as a percentage of GDP (from 3.4 to 3.5 per cent) and a sharply negative primary balance (-7.3 per cent of GDP, compared with the previous 1.8 per cent surplus) due to an increase of about ten points of GDP in primary expenditure (from 45.3 to 55 per cent) – above all, current expenditure (which would rise from 41.8 to 50.4 per cent of GDP) – associated with revenue that, although declining significantly in absolute value would increase slightly as a percentage of output (from 47 to 47.7 per cent). The fiscal burden would rise by one tenth, to 42.5 per cent of GDP.

The deficit would also be better than expected in view of the vast interventions deployed with the Decree Laws issued during the year. This is clear if we compare the forecasts for the general government accounts for 2020 contained in the EFD Update with those indicated in the EFD, which only reflected the financial effects of Decree Laws 18 and 23 of 2020.

The improvement in the estimated net borrowing for this year reflects a number of factors. During the year developments in revenue and expenditure were more favourable than expected, which is reflected in the smaller deterioration in the deficit (€60 billion) indicated in the EFD Update compared with what might be expected by mechanically adjusting the EFD estimates with the financial effects (€80 billion) of the Decree Laws issued subsequently (Decree Law 34 and Decree Law 104 of 2020), without considering

[24] See Parliamentary Budget Office (2020), "Audizione del Presidente dell'Ufficio parlamentare di bilancio nell'ambito dell'attività conoscitiva preliminare all'esame della Nota di aggiornamento del Documento di economia e finanza 2020", 12 October.

the reduction in revenue due to the large decrease in GDP currently expected compared with last April.

As noted on more than one occasion by the PBO, these aspects are connected on the one hand with the uncertainties that characterised the estimates of economic variables (macroeconomic and public finances) of this exceptional year and, on the other, with the difficulties of implementing interventions to address the emergency.

The monitoring of the public accounts revealed an overestimation of the initial trend forecasts for expenditure (probably attributable to local government entities), summed with the impact of lower-than-expected use of the resources made available with the anti-crisis decrees. Furthermore, the EFD Update reduced the forecast for interest expenditure as a result of more favourable developments in rates at issue compared with the previous assumptions, mainly attributable to the intervention of the ECB and to the European Commission's proposed NGEU package and the related European Council agreement last July.

On the revenue side, the more favourable developments in revenue than those initially expected – expectations that were probably characterised by considerable prudence – could reflect the behaviour of taxpayers with fewer liquidity constraints who may have continued to adopt the "historical method" for self-taxation purposes instead of the "forecast method". In addition, despite being harmed by the suspension of economic activity during the lockdown, firms may have decided to pay taxes and social security contributions in any case, in part to offset amounts paid on behalf of INPS, the national social security institute, to their employees in the wage supplementation programme. A further cause of the underestimation of revenue may be associated with the caution employed in formulating the assumptions adopted to estimate the recovery of taxes through the granting of wage supplementation compared with unemployment.

Projections for the deficit have therefore been progressively lowered in the light of the information that has gradually become available, in particular, information on tax payments already made and the use of wage supplementation.

More specifically, the more favourable revenue trend that emerged during the year prompted the downward revision of the estimated amount of suspended tax and contribution payments (as provided for in Decree Laws 9, 18 and 23 of 2020). The estimate of suspended tax and contribution payments has been changed numerous times in official documents. Initially, the suspension of taxes and contributions was valued at about €27 billion. Subsequently, in the Technical Report accompanying Decree Law 34/2020 – which was able to base its forecast on ex post information for payments in March and April 2020 – the amount was revised downwards to €20.6 billion. In particular, in March and April, as indicated by payments actually made, it was assumed that suspended payments amounted to €9.8 billion instead of the approximately €17 billion originally estimated. Taking account of the possibility that the amount of suspended payments in May and June, similar to developments in March and April, may have been less than initially estimated in light of the monitoring performed on the basis of the most recent data on tax payments, the Technical Report accompanying Decree Law 104 updated the overall estimate of suspended payments, reducing it further to €7.5 billion. The initial overestimation of the impact of the measures is probably associated with the prudential assumption that taxpayers would elect to suspend a large volume of tax payments in response to plausible liquidity shortages resulting from the suspension of economic activities during the lockdown.

The 2021 DBP. On the occasion of the presentation of the 2021 DBP, the estimate of the deficit was reduced by about €5 billion, from the 10.8 per cent of GDP given in the Update to 10.5 per cent (Table 2.3, line (e)). This reflected various factors, including updated information from the monitoring of the public accounts and the acquisition of new information. The updated monitoring data indicated improvements on both the revenue and expenditure fronts totalling about €2 billion. More specifically, expenditure on intermediate consumption and investment declined, while revenue from social contributions increased. As regards the new information acquired, data from INPS sources indicated that the effective use of wage supplementation programmes was about €3 billion lower than estimated in the Update.

The four "Relief Decrees" and the November Report. The worsening of the pandemic at the end of the summer required additional urgent interventions, which were deployed in the first three "Relief Decrees" (Decree Laws 137, 149 and 154) (Table 2.2, lines (e), (f) and (g)). As already noted, the new decrees did not require the submission of requests for additional deviations as the associated adverse impact on the deficit was offset by the improvements in the public accounts that were observed through the monitoring process during the year, producing savings with respect to the authorisations already approved by Parliament (Table 2.2, lines (e'), (f') and (g')).[25]

In particular, the use of the savings with respect to the deviations authorised by Parliament with the approval of the amounts requested in the Reports regarded the forecasts of net borrowing and the borrowing requirement. In terms of the net balance to be financed of the State budget, it was not necessary to resort to new deviations as reductions in previous parliamentary spending authorisations were used to partially fund the financial effects of the decrees.

In addition to reintroducing some measures already implemented during the first wave of the pandemic, the three decrees envisaged measures to tackle the economic crisis engendered by the COVID-19 epidemiological emergency, in particular by supporting firms in the economic sectors directly or indirectly affected by the restrictive measures introduced with the Prime Ministerial Decrees of 24 October and 3 November 2020 to contain the spread of the pandemic. The main interventions included the disbursement of non-repayable grants to persons holding VAT registration numbers and other operators, the suspension of tax and social security payments, other allowances and resources to enable municipalities to fund urgent food distribution measures.

The projected deficit would rise from the 10.5 per cent of GDP indicated in the 2021 DBP to 10.7 per cent as a result of Decree Law 137/2020 (Table 2.3, line (f)) and to 10.8 per

[25] See Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio sul DDL n. 1994 di conversione del DL 28 ottobre 2020, n. 137 recante ulteriori misure urgenti in materia di tutela della salute, sostegno ai lavoratori e alle imprese, giustizia e sicurezza connesse all'emergenza epidemiologica da COVID-19", 9 November.

cent as a result of Decree Law 149/2020 (Table 2.3, line (g)), equal to the estimate given in the 2020 EFD Update.

Even considering the adverse impact on the deficit of Decree Law 154/2020, the forecast for general government net borrowing would remain at 10.8 per cent of GDP.

In anticipation of the continuation of a policy of containing infection risks until the end of the year, and having exhausted the uses connected with the first three deviations approved by Parliament, the Government presented a further Report to Parliament on 20 November requesting a new deviation of €8 billion in terms of net borrowing and the borrowing requirement (€5 billion in terms of the net balance to be financed) to fund the measures in the fourth Relief Decree, Decree Law 157/2020 (Table 2.1, line (d) and Table 2.2, line (h)).

The total value of the deviations requested through the various Reports to Parliament amount to €108.3 billion (Table 2.1, last line) and were used to introduce the various anti-crisis decrees during the year that effectively increased the deficit by €108.2 billion (Table 2.2, last line).[26]

The overall impact of the decrees is equal to €113.6 billion (Table 2.2, line (i)), but the effective impact on the deficit is €108.2 billion considering the €5.4 billion (Table 2.2, line (l)) of uses of savings on deviations authorised by Parliament.

In conjunction with the emergence of these new requirements to support the sectors most adversely impacted by the restrictive measures, the most recent monitoring information of the public accounts indicates an improvement in deficit estimates, thanks above all to expenditure developments. According to the last Report to Parliament in November, various spending components on both current (intermediate consumption, other current expenditure and compensation of employees) and capital account (investment) have decreased. Furthermore, in view of the trend in yields on government securities, the estimate for interest expenditure has been revised downwards. On the revenue side, taking account of the measures contained in Decree Laws 137/2020 and 149/2020, the DBP estimates are unchanged. As a result of these developments, the estimated deficit for 2020 – which remains highly uncertain – decreased to 10.4 per cent of GDP (Table 2.3, line (h)). Including Government's use of the budget flexibility requested in the Report, which was implemented with Decree Law 157/2020, the estimated deficit for 2020 would be slightly higher than the 10.8 per cent of GDP indicated in the EFD Update (Table 2.3, line (i)).[27]

In this regard, it should be recalled that, in developing its preliminary figures for 2020, Istat could use accrual accounting for the effects of the provisions (contained in the various emergency decrees) that postpone – from 2020 to 2021 – some tax and contribution payments. Since the shifting of payments

[26] See Parliamentary Budget Office (2020), "Audizione informale del Presidente dell'Ufficio parlamentare di bilancio ai fini dell'esame del disegno di legge di bilancio per il 2021 e della Relazione al Parlamento presentata dal Governo ai sensi dell'articolo 6 della legge n. 243 del 2012", 24 November.

[27] See note 16.

forward is a temporary phenomenon, Istat could include – on an accruals basis – the effects of these provisions in the figures for 2020, with a consequent reduction of the deficit for 2020 and an increase in that for 2021.

2.1.1 The effects of the Decree Laws to counter the impact of COVID-19

As noted earlier, the financial effects of the decrees issued by the Government in 2020 to counter the impact of the pandemic totalled over €113 billion or 6.9 per cent of GDP (Table 2.4).

As can be seen from Table 2.4, the measures included in the Decree Laws involve uses of €128.2 billion in 2020 as expressed in terms of net borrowing, for which resources of €14.6 billion were raised. About 80 per cent of the uses consist of higher expenditure (€102.4 billion), of which over 66 per cent is represented by current spending (about €85 billion), while decreases in revenue amount to €25.8 billion. Expenditure also had a predominant role on the resource side as well, with expenditure decreases accounting for about 84 per cent (€12.3 billion) of the total, of which current spending accounted for the largest share

Table 2.4 – Financial effects of the anti-crisis decrees on the general government accounts
(millions of euros and percentage of GDP)

	2020
USES	**128,189.5**
As a % of GDP	*7.8*
Increases in expenditure	102,434.6
Current	*84,935.4*
Capital	*17,499.2*
Decreases in revenue	25,754.9
RESOURCES	**14,620.9**
As a % of GDP	*0.9*
Increases in revenue	2,330.4
Decreases in expenditure	12,290.5
Current	*10,752.9*
Capital	*1,537.5*
NET REVENUE	**-23,424.5**
NET EXPENDITURE	**90,144.1**
Current	*74,182.4*
Capital	*15,961.7*
NET BORROWING	**-113,568.6**
As a % of GDP	*-6.9*

Source: based on data from the summary of financial effects attached to Decree Laws 18/2020, 23/2020, 34/2020, 104/2020, 137/2020, 149/2020, 154/2020 and 157/2020 and data from the 2020 EFD Update.

(€10.8 billion), while increases in revenue amounted to only €2.3 billion. The total deterioration in the balance includes €90.1 billion in increased net expenditure – mainly current spending (€74.2 billion) – and €23.4 billion in lower net revenue (Table 2.4).

Examining the areas of intervention using a classification by groups that reflects the different lines of action contained in the various decrees, about two thirds of the net resources (64.3 per cent) have been directed to support the economy (firms and workers), allocating €39.8 billion (35 per cent) and €33.3 billion (29.3 per cent) to them respectively. A total of €12.6 billion were allocated to local authorities and a further €8.9 billion was allocated to the health system and the safety sector. Measures with smaller effects were targeted at schools, universities and research (€1.9 billion) and households and the disabled (€1.3 billion). Tax measures absorbed €17.1 billion, mostly attributable to extensions and rescheduling of tax and social security obligations (Table 2.5).

With regard to *health and safety* (€8.9 billion), in order to support initiatives to combat the emergency and to promote the structural strengthening of services in the coming months, measures have significantly increased funding for the National Health Service and refinanced the National Emergency Fund. Resources were also allocated to the Special Commissioner for the Covid-19 emergency.

With regard to *support for firms and the economy* (€39.8 billion), non-repayable grants were targeted at the sectors most affected by the emergency, the SME Guarantee Fund was increased, and support was channelled to the agricultural sector (through ISMEA). Other measures include the creation of a special section of the SME Fund for the implementation of the debt moratorium for small businesses; the abolition of the 2019 balance payment and the first payment on account for 2020 of IRAP (regional business tax); tax credits for rental payments on non-residential property, for costs associated with upgrading production processes and working environments, as well as for those connected with the sanitisation of the workplace and the purchase of personal protective equipment; tax credits linked to the assignment of impaired receivables; and the establishment of a number of funds for specific sectors, including those for agriculture, fishing and aquaculture and for cultural businesses and institutions (publishing, museums and other private institutions).

Measures for *workers* (€33.3 billion) included expanding (from the point of view of the duration and eligible beneficiaries) the various wage supplementation instruments (CIG wage supplementation, solidarity funds) and prolonging unemployment benefits and introducing one-off allowances for various categories of workers. The reconciliation of work and family life during the emergency was supported through funding of parental leave and extraordinary paid leave. Other urgent measures were also introduced regarding, among other things, the Emergency Income programme, benefits for domestic workers and the procedure for legalising unreported employment relationships. A bonus of up to €100 was granted for all private sector employees with incomes of up to €40 thousand who were required to work on site.

Table 2.5 – Net impact of the main measures in the anti-crisis decrees approved in 2020
(net amounts in millions of euros, including contributions charged to employers for each measure)

		DL 18/2020 (ratified)	DL 23/2020 (ratified)	DL 34/2020 (ratified)	DL 104/2020 (ratified)	"Relief" decrees	Total 2020
	NET BORROWING (1)	**-19,989**	**-11**	**-55,289**	**-24,876**	**-13,404**	**-113,569**
Health and safety	National Emergencies Fund (Civil Protection)	-1,650		-1,500	-511	-100	-3,761
	Increase in NHS funding	-1,039		-1,441	-276		-2,756
	Amounts transferred to special accounts of the Special Administrator			-1,467			-1,467
	Other measures	-249		-678	108	-49	-868
	Group total	***-2,938***	***0***	***-5,087***	***-679***	***-149***	***-8,852***
Support for firms and the economy	Grants for sectors hit by emergency			-6,197	-5	-4,941	-11,143
	SME Guarantee Fund and ISMEA (agriculture guarantees)	-1,630	-249	-4,230			-6,109
	Abolition of IRAP 2019 balance payment and first 2020 payment on account			-3,952			-3,952
	60% tax credit for rent paid on non-residential property	-356		-1,499	-99	-339	-2,294
	Contribution relief				-1,884		-1,884
	Vacation allowance			-1,677			-1,677
	Special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	-1,730	300	30			-1,400
	Tax credits for assignment of impaired receivables (DTA)	-1,058					-1,058
	Contribution relief for agriculture, fishing and aquaculture			-426		-385	-811
	Integrated Promotional Fund and other measures for internationalisation of firms	-150		-255	-63	-300	-768
	Emergency fund for cultural companies and institutions (publishing, museums and other private institutions)			-172	-60	-400	-632
	Exemption from 2020 IMU (municipal property tax) for tourist and entertainment industries			-211	-232	-176	-619
	Tax credit for sanitisation of workplace and purchase of personal protective equipment	-50		-150	-403		-603
	Reduction in non-residential electricity rates (for April, May and June 2020)			-600			-600
	Fund to cover state guarantees supporting liquidity of enterprises affected by emergency	-500					-500
	Grant for businesses in historic city centres				-500		-500
	Other measures	-644	-51	-1,963	-2,399	-155	-5,213
	Group total	***-6,119***	***0***	***-21,303***	***-5,646***	***-6,696***	***-39,763***
Measures for workers	Extension of various income support instruments (CIG, solidarity funds)	-3,556		-10,602	-4,499	1,338	-17,319
	One-off allowances for various categories of worker	-3,262		-4,802	-773	-155	-8,993
	Parental leave, paid leave, substitute service vouchers and sick leave	-1,389		-1,191	-411	-26	-3,017
	Extension of NASPI and DIS-COLL			-400	-856		-1,256
	Emergency Income			-971			-971
	Bonus for payroll employees (with income up to €40,000) working on-site	-881					-881
	Fund for grants to tourism operators (except accommodations)				-240	-410	-650
	Other measures	-11		-600	400	46	-166
	Group total	***-9,098***	***0***	***-18,567***	***-6,380***	***793***	***-33,252***
Measures for households and the disabled	Fund for support of renters and purchase of primary residence	-400		-260			-660
	Other measures	-50		-444	-165		-659
	Group total	***-450***	***0***	***-704***	***-165***	***0***	***-1,319***
Local authorities	Fund for the exercise of the basic functions of local authorities			-3,500	-1,670		-5,170
	Fund for the exercise of the functions of the regions and autonomous provinces			-1,500	-2,800		-4,300
	Funds for municipalities for food emergency and other resources for local authorities			-528		-400	-928
	Fund to support local public transportation companies			-500	-400		-900
	Other measures	-347		-270	-645	-5	-1,266
	Group total	***-347***	***0***	***-6,298***	***-5,515***	***-405***	***-12,564***
Tax measures	Postponement and suspension of tax, contribution and concession obligations and associated penalties	-851		-418	-6,121	-8,488	-15,878
	Increase from €700 thousand to €1 million in annual limit on tax credits that can be set off or refunded			-558			-558
	Other measures		-12	-609	-41		-662
	Group total	***-851***	***-12***	***-1,584***	***-6,163***	***-8,488***	***-17,097***
Measures for schools, universities and research	Ministry of Education fund for COVID-19 emergency			-194	-400		-594
	Other measures	-144		-1,078	-32	-88	-1,342
	Group total	***-144***	***0***	***-1,273***	***-432***	***-88***	***-1,936***
Other sectoral measures, financial provisions and funding measures	Interest expense	-181		-326	-85		-592
	Reversal to revenue of vacation allowance resources					860	860
	Reduction in funds and other funding measures	137	1	85	22	717	962
	Other measures	1		-233	165	52	-14
	Group total	***-43***	***1***	***-474***	***102***	***1,629***	***1,216***

Source: based on data from the summary of the financial effects attached to the measures.
(1) Totals may not match due to rounding of decimals.

With regard to *people with disabilities and family policy* (€1.3 billion), funds were allocated for rent payments and the purchase of primary residences, resources to be used for summer camps and additional funds for the non-self-sufficient.

Measures for *local authorities* (€12.6 billion) include support to handle the financial problems posed by the spread of the virus, with an increase in funding for basic functions of local authorities and that for the functions of the regions. Resources were also appropriated for municipalities to address the food emergency and support local public transport companies.

With regard to *tax measures* (€17.1 billion), various provisions suspended or postponed the payment of taxes and social security contributions and the associated penalty procedures. The two taxes introduced with the 2020 Budget Act on the consumption of single-use plastic products and the consumption of certain types of beverages have been postponed to next year, while the annual limit on tax credits that can be set off or refunded into tax accounts has been increased from €700 thousand to €1 million and some excise duty obligations have been deferred.

With regard to *schools, universities and research* (€1.9 billion), a fund for the COVID-19 epidemiological emergency was established at the Ministry of Education, while the fund for the operation of state educational institutions and that for digital innovation and laboratory teaching were increased and grants were allocated to authorised private schools and resources appropriated for universities and research.

Lastly, other measures lower the deficit by €1.2 billion, essentially regarding funds to cover outlays. Conversely, interest expenditure increases the deficit.

Table 2.6 provides a more detailed breakdown of the groups of measures, distinguishing between those generating net expenditure and those involving net revenue. Finally, Table 2.7 breaks down the most important interventions, distinguishing between uses and resources in the various decrees.

In general, most of the measures have a similar impact on the three public finance balances, with the exception of certain specific large-value measures that have differentiated effects on the balances (Table 2.8).

Table 2.6 – Main measures in the anti-crisis decrees approved in 2020
(net amounts in millions of euros)

		DL 18/2020 (ratified)	DL 23/2020 (ratified)	DL 34/2020 (ratified)	DL 104/2020 (ratified)	"Relief" decrees	Total 2020
	NET EXPENDITURE [1]	**19,611**	**-17**	**49,296**	**16,829**	**4,425**	**90,144**
Health and safety	National Emergencies Fund (Civil Protection)	1,650		1,500	511	100	3,761
	Increase in NHS funding	1,410		1,798	478		3,686
	Amounts transferred to special accounts of the Special Administrator			1,467			1,467
	Resources for strengthening military healthcare and extraordinary deployment of security sector			269	60	140	470
	Increase in NHS funding connected with legalisation of employment relationships			170			170
	Group total	***3,364***		***5,257***	***1,081***	***217***	***9,918***
Support for firms and the economy	Grants for sectors hit by emergency			6,197	5	4,941	11,143
	SME Guarantee Fund and ISMEA (agriculture guarantees)	1,630	249	4,230			6,109
	60% tax credit for rent paid on non-residential property	356		1,499	99	339	2,294
	Vacation allowance			1,677			1,677
	Special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	1,730	-300	-30			1,400
	Tax credits for assignment of impaired receivables (DTA)	1,058					1,058
	Integrated Promotional Fund and other measures for internationalisation of firms	150		256	63	300	769
	Emergency fund for cultural companies and institutions (publishing, museums and other private institutions)			172	60	400	632
	Tax credit for sanitisation of workplace and purchase of personal protective equipment	50		150	403		603
	Reduction in non-residential electricity rates (for April, May and June 2020)			600			600
	Grant for businesses in historic city centres				500		500
	Fund to cover state guarantees supporting liquidity of enterprises affected by emergency	500					500
	Emergency fund for entertainment, cinema and audio-visual industries	130		105	90	100	425
	Increase in fund for purchase of new vehicles				400		400
	Increase in funding for development contracts	240			150		390
	Support for licensed air transportation companies with public service obligations (Alitalia)	350		0			350
	Fund to support areas subject to additional restrictions					340	340
	Compensation fund for national railway infrastructure operator and indemnity for lost revenue			270			270
	Fund to preserve employment (support for firms in difficulty with more than 250 employees)			70	200		270
	Fund for restaurant industry				600	-350	250
	Other measures for transport sector (multimodal sea and rail transport incentives and other)			105	120		225
	Tax credit for redevelopment and renovation of tourism and hotel facilities				219		219
	Resources for museums to offset lost revenue and establishment of culture fund			150	65		215
	Group total	***6,164***	***-16***	***16,534***	***3,090***	***6,135***	***31,907***
Measures for workers	Extension of various income support instruments (CIG, solidarity funds)	3,556		10,602	4,499	-1,338	17,319
	One-off allowances for various categories of worker	3,262		4,802	773	155	8,993
	Parental leave, paid leave, substitute service vouchers and sick leave	1,389		1,191	411	26	3,017
	Extension of NASPI and DIS-COLL			400	856		1,256
	Emergency Income			971			971
	Bonus for payroll employees (with income up to €40,000) working on-site	881					881
	Fund for grants to tourism operators (except accommodations)				240	410	650
	Allowance for domestic workers			468	-169	-46	254
	Group total	***9,098***	***0***	***18,675***	***6,603***	***-793***	***33,583***
Measures for households and the disabled	Fund for support of renters and purchase of primary residence	400		260			660
	Resources for support of the disabled and non-self-sufficient			150	30		180
	Constitutional Court ruling concerning disability			46	132		178
	Group total	***450***		***704***	***165***		***1,319***
Local authorities	Fund for the exercise of the basic functions of local authorities			3,500	1,670		5,170
	Fund for the exercise of the functions of the regions and autonomous provinces			1,500	2,800		4,300
	Funds for municipalities for food emergency and other resources for local authorities			528		400	928
	Fund to support local public transportation companies			500	400		900
	Compensation payment to municipalities for loss of tourist tax revenue			100	300		400
	Expansion of expenditure capacity of local authorities	273			87	5	365
	Resources for areas hit by earthquakes (extension of state of emergency, administrator arrangements and other)			200	30		230
	Group total	***347***		***6,298***	***5,517***	***405***	***12,567***
Tax measures	***Group total***			***5***	***12***		***17***
Measures for schools, universities and research	Ministry of Education fund for COVID-19 emergency			378	400		778
	Increase in fund for the operation of state schools			331			331
	Grant to public or private authorised primary schools to offset lost fees and support measures for private authorised education up to age 16			285			285
	Schools - increase in fund for digital innovation and laboratory teaching	85				85	170
	Group total	***146***		***1,303***	***459***	***90***	***1,998***
Other sectoral measures, financial provisions and funding measures	Interest expense	181		326	85		592
	Measures for sport			73	93	147	313
	Reduction in resources for activation and management of EIC			-35		-114	-149
	Savings on Inail tender ISI 2019 (workplace health and safety incentives)				-403		-403
	Savings on vacation allowance					-860	-860
	Reduction in funds and other funding measures	-137	-1	-85	-22	-717	-962
	Group total	***43***	***-1***	***520***	***-97***	***-1,629***	***-1,164***

Table 2.6 – *(cont.)* Main measures in the anti-crisis decrees approved in 2020

(net amounts in millions of euros)

		DL 18/2020 (ratified)	DL 23/2020 (ratified)	DL 34/2020 (ratified)	DL 104/2020 (ratified)	"Relief" decrees	Total 2020
	NET REVENUE (1)	**-378**	**-28**	**-5,994**	**-8,047**	**-8,978**	**-23,424**
Measures for workers	Elimination of VAT for 2020 and reduction of VAT rate to 5% subsequently for sale of goods essential for COVID-19 care and containment			-257			-257
	Contributions charged to employers	426		427	404	68	1,324
	Group total	***426***		***170***	***402***	***68***	***1,065***
Support for firms and the economy	Abolition of IRAP 2019 balance payment and first 2020 payment on account			-3,952			-3,952
	Contribution relief				-1,884		-1,884
	Contribution relief for agriculture, fishing and aquaculture			-426		-385	-811
	Exemption from 2020 IMU (municipal property tax) for tourist and entertainment industries			-211	-232	-176	-619
	Contribution relief for firms that do not use wage supplementation programmes				-363		-363
	Exemption from TOSAP/COSAP public land occupation fees for restaurants			-140	-77		-217
	Contributions charged to employers	4		0			4
	Group total	***45***	***-16***	***-4,769***	***-2,556***	***-561***	***-7,857***
Measures for workers	Co-payment from employers to access special wage supplementation programmes				223		223
	Contributions charged to employers			15			15
	Group total			***109***	***223***		***332***
Local authorities	Contributions charged to employers				2		2
	Group total			***0***	***2***		***2***
Tax measures	Postponement and suspension of tax, contribution and concession obligations and associated penalties	-851		-418	-6,121	-8,488	-15,878
	Increase from €700 thousand to €1 million in annual limit on tax credits that can be set off or refunded			-558			-558
	Deferral of excise tax requirements			-320			-320
	10% reduction in payments on account for natural gas and electricity			-247			-247
	Extension of redetermination of cost of land and equity investments not traded on regulated markets			206			206
	Deferral of plastic tax and sugar tax			-199			-199
	Tax effects			27			27
	110% tax credit on energy efficiency upgrades, seismic resilience, etc.			27			27
	Group total	***-851***	***-12***	***-1,579***	***-6,150***	***-8,488***	***-17,080***
Measures for schools, universities and research	Exemption or reduction of annual omnibus fee for university students			-165			-165
	Contributions charged to employers	2		203	27	2	234
	Group total	***2***		***30***	***27***	***2***	***61***
Other sectoral measures, financial provisions and funding	Contributions charged to employers			6	2		9
	Group total	***0***		***46***	***5***		***51***
	NET BORROWING	**-19,989**	**-11**	**-55,289**	**-24,876**	**-13,404**	**-113,569**

Source: based on data from the summary of the financial effects attached to the measures.
(1) Totals may not match due to rounding of decimals.

Table 2.7 – Effects of the anti-crisis decrees approved in 2020 on the general government consolidated account
(gross amounts in millions of euros)

	DL 18/2020 (ratified)	DL 23/2020 (ratified)	DL 34/2020 (ratified)	DL 104/2020 (ratified)	"Relief" decrees	Total 2020
USES [1]	**20,837**	**312**	**57,574**	**31,215**	**18,251**	**128,189**
As a % of GDP	*1.3*	*0.0*	*3.5*	*1.9*	*1.1*	*7.8*
Increases in expenditure	**19,898**	**284**	**50,542**	**22,507**	**9,203**	**102,435**
Increases in current expenditure	***13,191***	***5***	***42,057***	***20,665***	***9,018***	***84,935***
Extension of various income support instruments (CIG, solidarity funds)	3,556		10,602	4,802		18,960
Grants for sectors hit by emergency			6,197	5	5,046	11,248
One-off allowances for various categories of worker	3,262		4,802	1,303	1,293	10,661
Fund for the exercise of the functions of the regions and autonomous provinces			1,500	6,900		8,400
Fund for the exercise of the basic functions of local authorities			3,500	1,670		5,170
Increase in NHS funding	1,410		1,798	478		3,686
Parental leave, paid leave, substitute service vouchers and sick leave	1,389		1,191	411	26	3,017
60% tax credit for rent paid on non-residential property	356		1,499	99	339	2,294
Vacation allowance			1,677			1,677
Extension of NASPI and DIS-COLL			400	856		1,256
Tax credits for assignment of impaired receivables (DTA)	1,058					1,058
Emergency Income			971			971
Funds for municipalities for food emergency and other resources for local authorities			518		400	918
Fund to support local public transportation companies			500	400		900
Bonus for payroll employees (with income up to €40,000) working on-site	881					881
Ministry of Education fund for COVID-19 emergency			378	400		778
Integrated Promotional Fund and other measures for internationalisation of firms	150		256	63	300	769
Tax credit for sanitisation of workplace and purchase of personal protective equipment	50		200	403		653
Fund for grants to tourism operators (except accommodations)				240	410	650
Emergency fund for cultural companies and institutions (publishing, museums and other private institutions)			172	60	400	632
Reduction in non-residential electricity rates (for April, May and June 2020)			600			600
Fund for restaurant industry				600		600
Grant for businesses in historic city centres				500		500
Fund for urgent measures			475	15		490
Allowance for domestic workers			468			468
Compensation payment to municipalities for loss of tourist tax revenue			100	300		400
Resources for strengthening military healthcare and extraordinary deployment of security sector			199	60	140	400
Expansion of expenditure capacity of local authorities	273			87	5	365
Support for licensed air transportation companies with public service obligations (Alitalia)			350			350
Fund to support areas subject to additional restrictions					340	340
Increase in fund for the operation of state schools			331			331
Emergency fund for entertainment, cinema and audio-visual industries	80		65	40	100	285
Grant to public or private authorised primary schools to offset lost fees and support measures for private authorised education up to age 16			285			285
Compensation fund for national railway infrastructure operator and indemnity for lost revenue			270			270
Constitutional Court ruling concerning disability			46	178		224
Measures for sport			73	3	147	223
Resources for museums to offset lost revenue and establishment of culture fund			150	65		215
Resources for areas hit by earthquakes (extension of state of emergency, administrator arrangements and other)			200	5		205
Resources for support of the disabled and non-self-sufficient			150	30		180
Interest expense	181		326	85		592
Other measures	545	5	1,807	606	71	3,035
Increases in capital expenditure	***6,708***	***279***	***8,485***	***1,842***	***185***	***17,499***
SME Guarantee Fund and ISMEA (agriculture guarantees)	1,630	249	4,230			6,109
National Emergencies Fund (Civil Protection)	1,650		1,500	550	100	3,800
Special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	1,730					1,730
Amounts transferred to special accounts of the Special Administrator			1,467			1,467
Fund for support of renters and purchase of primary residence	400		100			500
Fund to cover state guarantees supporting liquidity of enterprises affected by emergency	500					500
Increase in fund for purchase of new vehicles				400		400
Increase in funding for development contracts	240			150		390
Support for licensed air transportation companies with public service obligations (Alitalia)	350					350
Fund to preserve employment (support for firms in difficulty with more than 250 employees)			100	200		300
Tax credit for redevelopment and renovation of tourism and hotel facilities				180		180
Schools - increase in fund for digital innovation and laboratory teaching	70				85	155
Other measures	138	30	1,088	362		1,618

Table 2.7 – *(cont.)* Effects of the anti-crisis decrees approved in 2020 on the general government consolidated account
(gross amounts in millions of euros)

	DL 18/2020 (ratified)	DL 23/2020 (ratified)	DL 34/2020 (ratified)	DL 104/2020 (ratified)	"Relief" decrees	Total 2020
USES (1) *(cont.)*						
Decreases in revenue	**939**	**28**	**7,031**	**8,708**	**9,049**	**25,755**
Postponement and suspension of tax, contribution and concession obligations and associated penalties	851		418	6,121	8,488	15,878
Abolition of IRAP 2019 balance payment and first 2020 payment on account			3,952			3,952
Contribution relief				1,884		1,884
Contribution relief for agriculture, fishing and aquaculture			426		385	811
Exemption from 2020 IMU (municipal property tax) for tourist and entertainment industries			211	232	176	619
Increase from €700 thousand to €1 million in annual limit on tax credits that can be set off or refunded			558			558
Contribution relief for firms that do not use wage supplementation programmes				363		363
Deferral of excise tax requirements			320			320
Elimination of VAT for 2020 and reduction of VAT rate to 5% subsequently for sale of goods essential for COVID-19 care and containment			257			257
10% reduction in payments on account for natural gas and electricity			247			247
Exemption from TOSAP/COSAP public land occupation fees for restaurants			140	77		217
Deferral of plastic tax and sugar tax			199			199
Exemption or reduction of annual omnibus fee for university students			165			165
Other measures	86	28	138	31		282
***Additional revenue changes linked to the measures* (Oneri riflessi)**	***2***		***1***	***0***		***3***
RESOURCES (1)	**848**	**301**	**2,284**	**6,340**	**4,848**	**14,621**
As a % of GDP	*0.1*	*0.0*	*0.1*	*0.4*	*0.3*	*0.9*
Decreases in expenditure	**287**	**301**	**1,247**	**5,678**	**4,777**	**12,290**
Decreases in current expenditure	***172***	***1***	***687***	***5,621***	***4,272***	***10,753***
Fund for the exercise of the functions of the regions and autonomous provinces				4,100		4,100
One-off allowances for various categories of worker				530	1,138	1,668
Extension of various income support instruments (CIG, solidarity funds)				303	1,338	1,641
Savings on vacation allowance					860	860
Fund for urgent measures			401	46		447
Savings on Inail tender ISI 2019 (workplace health and safety incentives)				403		403
Fund for restaurant industry					350	350
Reduction in funds and other funding measures	26	1	82	12	217	338
Other measures	146	0	204	227	369	946
Decreases in capital expenditure	***115***	***300***	***560***	***57***	***505***	***1,538***
Reduction in funds and other funding measures	110		3	10	500	624
Support for licensed air transportation companies with public service obligations (Alitalia)			350			350
Special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs		300	30			330
Other measures	5	0	177	47	5	234
Increases in revenue	**561**	**0**	**1,038**	**661**	**71**	**2,330**
Co-payment from employers to access special wage supplementation programmes				223		223
Extension of redetermination of cost of land and equity investments not traded on regulated markets			206			206
Other measures	127	0	153	3		282
Tax effects			***27***			***27***
110% tax credit on energy efficiency upgrades, seismic resilience, etc.			27			27
Contributions charged to employers	***434***	***0***	***652***	***435***	***71***	***1,592***
NET REVENUE	**-378**	**-28**	**-5,994**	**-8,047**	**-8,978**	**-23,424**
NET EXPENDITURE	**19,611**	**-17**	**49,296**	**16,829**	**4,425**	**90,144**
Current	*13,019*	*4*	*41,370*	*15,044*	*4,745*	*74,182*
Capital	*6,592*	*-21*	*7,925*	*1,785*	*-320*	*15,962*
NET BORROWING	**-19,989**	**-11**	**-55,289**	**-24,876**	**-13,404**	**-113,569**
As a % of GDP	*-1.2*	*0.0*	*-3.4*	*-1.5*	*-0.8*	*-6.9*

Source: based on data from the summary of the financial effects attached to the measures.
(1) Totals may not match due to rounding of decimals.

Table 2.8 – Differential impacts of specific large-value measures on the public finance balances –2020
(millions of euros)

Art.	Para.	Legislation	Net balance to be financed	Borrowing requirement	Net borrowing
		DL 18/2020			
Various		Imputed contributions connected with social safety net programmes and other measures for workers	2,339	0	0
56	6	Establishment of special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	1,730	0	1,730
57	3	Establishment of fund to cover State guarantees (for CDP)	500	0	500
		DL 23/2020			
1	14	Guarantee fund for SACE and CDP (support for enterprises)	1,000	0	0
1	14	Payment of resources available on special accounts of reserve fund for State guarantees	-1,000	0	0
		DL 34/2020			
26	19	Establishment of SME Capital Fund	4,000	4,000	5
27	17	Targeted Fund of Cassa depositi e prestiti (CDP)	44,000	0	0
31	1	Supplemental appropriation to guarantee fund for SACE and CDP as part of measures to support enterprises referred to in Article 1, paragraph 14 of DL 23 /2020	30,000	0	0
31	2	Increase in SME Guarantee Fund	3,950	0	3,950
36	2	State guarantees granted in connection with the European Investment Bank Guarantee Fund and the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE)	1,000	0	0
Various		Imputed contributions connected with social safety net programmes and other measures for workers	6,323	0	0
115	1	Fund for the payment of certain, determinable and enforceable accounts payable	12,000	12,000	0
202	1	Establishment of a new company for the operation of activities in the air transport sector – MEF equity stake	3,000	3,000	0
202	2	Reduction of Fund for urgent measures connected with provisions that have no impact on general government net borrowing referred to in Article 3, paragraph 3, of DL 3/2020	-2,000	-2,000	0
		DL 104/2020			
Various		Imputed contributions connected with social safety net programmes and other measures for workers	3,445	0	0
66	1	Programmes to support growth and capitalisation of companies controlled by the State	1,500	1,500	0
67	1	Reorganisation of SACE Group	0	4,500	0
91	2	Increase in revolving fund for subsidised loans to exporting companies referred to in Article 2 of DL 251/1981	300	300	0
91	5	Increase in revolving fund for venture capital transactions referred to in Article 1, paragraph 932, of Law 296/2006	100	100	0
		DL 137/2020			
6	1	Refinancing of revolving fund for subsidised loans to exporting companies referred to in Article 2 of DL 251/1981, ratified with amendments by Law 394 of 29 July 1981	150	150	0
Various		Imputed contributions connected with social safety net programmes and other measures for workers	-525	0	0
34	3 letter b)	Reduction of funding for wage supplementation to ensure broader protection of employment than that provided by refinancing of measures in Article 22-ter of DL 18/2020 – Benefits	-1,138	0	0
34	3 letter c)	Reduction in spending authorisations in Article 19, paragraph 9, of DL 18/2020 and Article 1, paragraph 11, of DL 104/2020 – Income support measures	-1,320	0	0
34	3 letter l)	Reduction in tax credit of credit and financial institutions for deferred tax assets (DTAs)	-730	0	0
		DL 149/2020			
Various		Imputed contributions connected with social safety net programmes and other measures for workers	-277	0	0
31	1 letter b)	Reduction in fund for the payment of certain, determinable and enforceable accounts payable of local authorities, regions and autonomous provinces for debts other than financial liabilities and healthcare liabilities referred to in Article 115, paragraph 1, of DL 34/2020	-1,200	-1,200	0
31	1 letter c)	Reduction in fund for subscription of equity stakes	-200	-200	0
		DL 154/2020			
4	3	Imputed contributions connected with social safety net programmes and other measures for workers	-434	0	0
		DL 157/2020			
4		Deferral to 1 March 2021 of instalment payment under 3rd programme for the facilitated settlement of tax liabilities – tax authorities	0	-530	-530
4		Deferral to 1 March 2021 of instalment payment under 3rd programme for the facilitated settlement of tax liabilities – Other entities	0	-110	-110
26	3	Reduction in fund for the payment of certain, determinable and enforceable accounts payable - Section I fund for the payment of certain, determinable and enforceable accounts payable of local authorities, regions and autonomous provinces for debts other than financial liabilities and healthcare liabilities referred to in Article 115, paragraph 1, of DL 34/2020	-4,000	-4,000	0

Source: based on data from the summary of the financial effects attached to Decree Laws 18/2020, 23/2020, 34/2020, 104/2020, 137/2020, 149/2020, 154/2020 and 157/2020.

In particular, we highlight the measures with an impact on the net balance to be financed (which in the summary of the financial effects of the measures is stated on an accruals basis) and on the borrowing requirement, but with no or virtually no impact on net borrowing: i) €12 billion relating to the fund established with Decree Law 34/2020 for the payment of certain, determinable and enforceable accounts payable (€8 billion relating to local authorities and regions and €4 billion to National Health Service entities) and, consequently, the use of resources available in this fund to finance measures provided for in Decree Laws 149/2020 and 157/2020, in the amount of €1.2 billion and €4 billion, respectively; ii) €4 billion, envisaged under Decree Law 34/2020, relating to the SME Capital Fund; iii) €3 billion, appropriated with Decree Law 34/2020, for the participation of the MEF in the establishment of a new company for the operation of activities in the air transport sector, with a portion of funding deriving from the use of the resources allocated under Decree Law 18/2020 to the fund for urgent measures connected with provisions that have no impact on general government net borrowing; iv) €1.5 billion, provided for under Decree Law 104/2020, relating to the authorisation for the subscription of capital increases and equity instruments of companies controlled by the State; v) increases in revolving funds for subsidised loans to exporting companies and venture capital operations, equal to €0.4 billion in Decree Law 104/2020 and €0.15 billion in Decree Law 137/2020; and vi) a reduction of €0.2 billion in the fund for the subscription of share capital, provided for under Decree Law 157/2020. This type of classification essentially depends on the fact that these are financial items.

Other measures have an impact on general government net borrowing and on the net balance to be financed but not on the borrowing requirement, including: i) the establishment of a special section within the SME Guarantee Fund – provided for under Decree Law 18/2020 – for the moratorium on debt payments of micro-enterprises and SMEs (with an appropriation of €1.7 billion provided under Decree Law 18/2020, subsequently reduced by €249 million with Decree Law 23/2020); ii) a €0.5 billion guarantee fund for Cassa Depositi e Prestiti (CDP); and iii) an increase of about €4 billion in the SME Guarantee Fund under Decree Law 34/2020. These measures have an impact on net borrowing as they are "standard" guarantees, i.e. they are granted to a large number of borrowers using common rules aimed at establishing the size of the guaranteed amount (usually relatively small) and the characteristics of the beneficiaries, for whom it is possible to estimate – on the basis of the statistically expected guarantee enforcement risk – the expected loss, corresponding to the amount of enforcement considered probable against the guarantees granted, with an impact therefore at the time the guarantee is granted,[28] while the actual disbursement of liquidity is recognized in the borrowing requirement at the time the guarantee is enforced. It should be noted that for all public guarantee measures the impact on the accounts deriving from contingent

[28] For more on public guarantees classified into two groups ("standard" and "non-standard"), each of which received different accounting treatment, see Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio sul DDL AC 2461 di conversione del DL 23 del 2020", 30 April, Appendix 2.

liabilities must be monitored regularly and reported both in the Economic and Financial Document (as required under Law 196/2009, Article 10) and in a specific publication required under Directive 2011/85/2011.[29]

Some provisions are relevant for the borrowing requirement and net borrowing but not for the net balance to be financed: these are the amounts due under third programme for the facilitated settlement of tax liabilities and those to be paid under the "balance and write-off" mechanism for the reduction of amounts due from taxpayers in serious financial difficulty, which under the provisions of Decree Law 157 decrease by €0.64 billion. In particular, there is no impact on the net balance to be financed – which is determined on an accruals basis – as it concerns the collection of tax arrears assigned to collection agents in previous years, in which these amounts had already been assessed.

A number of relative large-value measures have an impact on the net balance to be financed only: i) €44 billion in respect of the "Targeted Fund" ("*Patrimonio Destinato*") of Cassa Depositi e Prestiti, provided for under Decree Law 34/2020 for use in corporate recapitalisation operations (under Decree Law 104/2020, part of the securities contributed to establish the Targeted Fund can be used to finance the reorganisation of the SACE Group, with an impact of €4.5 billion on the borrowing requirement; see below); ii) €30 billion in respect of the supplemental financing – provided for under Decree Law 34/2020 – for the Guarantee Fund managed by SACE and CDP, established as part of the support measures for firms referred to in Article 1, paragraph 14, of Decree Law 23/2020 (€1 billion, with the associated funding with resources held in the special accounts of the Reserve Fund for State guarantees); iii) the imputed contributions linked to social safety net programmes, included in almost all the decrees (a total of €10.9 billion); iv) €1 billion envisaged under Decree Law 34/2020 in respect of State guarantees granted in connection with the European Investment Bank Guarantee Fund and the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE). These measures do not impact net borrowing or the borrowing requirement as the guarantee granted is considered "non-standard" and therefore the associated impact on these balances is deferred to the moment of any enforcement of the guarantee: these are generally large-value guarantees granted on a case-by-case basis under individual contractual agreements, for which the risk of enforcement does not lend itself to statistical assessment given the specificity of the agreements.

Yet other measures are always recorded only in terms of the net balance to be financed as they are already incorporated in the trend forecasts for the other balances. These include: i) expenditure reductions envisaged under Decree Law 137/2020 with regard to authorisations established under the earlier Decree Laws 18/2020 and 104/2020; ii) savings of €0.73 billion envisaged under Decree Law 137/2020 relating to reductions in

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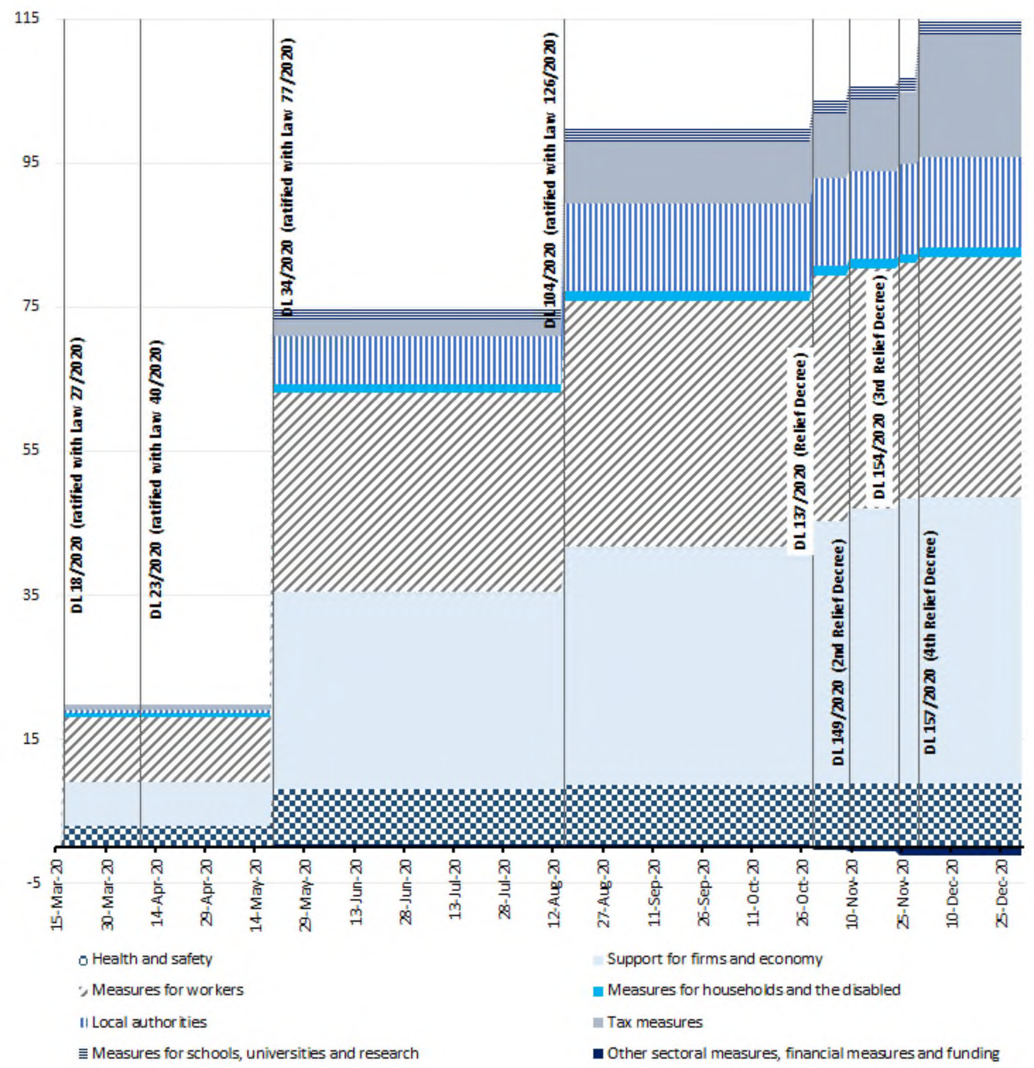
[29] See the Ministry for the Economy and Finance publication "Tavole statistiche secondo l'articolo 14 comma 3 della direttiva UE n. 85/2011".

tax credits for credit and financial institutions for deferred tax assets they carry in their balance sheets.

Finally, as noted previously, the transactions – of a financial nature – transferring shareholdings resulting from the reorganisation of the SACE Group increased the borrowing requirement by €4.5 billion, with no impact on the net balance to be financed as they are already included in those generated by the establishment of the Targeted Fund provided for under Article 27 of Decree Law 34/2020. An (initial) cash flow is quantified with an impact on the borrowing requirement and – consequently – on the debt.

With regard to the temporal distribution of the interventions, the Decree Laws began to enter force on 17 March, the date of publication of Decree Law 18/2020, continuing until 30 November, the date of publication of Decree Law 157/2020 (Figure 2.1).

Figure 2.1 – Financial effects of the anti-crisis decrees on the general government accounts – Publication dates of the Decree Laws– 2020



Source: based on data from the summary of the financial effects attached to Decree Laws 18/2020, 23/2020, 34/2020, 104/2020, 137/2020, 149/2020, 154/2020 and 157/2020.

As can be seen from Figure 2.1, the resources made available to support firms and the economy and those for workers were already significant under the first three decrees. Although to a more limited extent, this also holds for resources allocated for health and safety programmes and for local authorities. The resources relating to tax reduction measures grew larger in the second half of the year.

However, it should be borne in mind that the actual transfer of financial resources to workers, households, firms and institutions, which is still ongoing, took place over the various months in conditions affected by implementation difficulties and therefore with a lag with respect to the entry into force of the Decree Laws.

2.2 *The public finances in 2021-2023 in the context of the use of EU funds*

In the Report of 20 November, the Government confirmed the adjustment path indicated in the EFD Update for the 2021-2023 period, albeit in a context in which uncertainty concerning both the evolution of the pandemic and the subsequent economic recovery remains high. The need for any additional resources in the first quarter of 2021 will be assessed by the Government in January 2021, in the light of developments in the pandemic, the results of the efforts to contain the resurgence of COVID-19 infections and the outlook for the vaccination of the Italian population.

The budgetary policy reflected in the policy scenario in the EFD Update seeks to support the recovery in the context of the COVID-19 emergency within a gradual process of rebalancing the public accounts. This strategy also takes account of the possibility of using European Union funds under the NGEU programme, consisting of a set of financial instruments for the recovery and resilience of the EU economies, which was introduced in response to the pandemic.[30] The measures for which Italy will ask for funding through these instruments are being developed as part of the preparation of the National Recovery and Resilience Plan (NRRP). However, as detailed in section 2.3, at the time of the presentation of the 2021 Budget Bill, the composition and distribution of European funds were only partially defined.

The budget measures will increase the deficit compared with the trend in 2021-2022 and reduce it in 2023.

According to the forecasts in the EFD Update, net borrowing should be equal to 7.0 per cent of GDP in 2021, after a slightly higher deficit than the estimated 10.8 per cent – as mentioned earlier – for 2020, before decreasing to 4.7 per cent in 2022 and then 3 per cent in 2023, with the latter below the 3.3 per cent forecast in the trend scenario (Table 2.9). Developments in the debt/GDP ratio should be more favourable than the trend scenario in each year of the policy period, with an accentuation of its decline.

Note that the trend accounts of the EFD Update do not include the effects of the "Relief Decrees", as they were issued after its publication. The net impact of these decrees on the deficit for the 2021-2023 is nil or an improvement of a few million euros. It should be recalled that in the context of the anti-crisis decrees approved in 2020 the quantitatively most significant effect was the sterilisation of the impact of the safeguard clauses concerning increases in VAT and excise duties included in Decree Law 34/2020 starting from 2021.

[30] The Recovery and Resilience Facility (RRF) includes both grants and loans, while the React-EU, Just Transition Fund, Rural Development and other minor programmes consist of grants only.

Table 2.9 – Public finance indicators (1)
(percentage of GDP; positive numbers indicate improvement in balance)

	2018	2019	2020	2021	2022	2023
Trend net borrowing (a)	**-2.2**	**-1.6**	**-10.8**	**-5.7**	**-4.1**	**-3.3**
Change on previous year (a')	*0.2*	*0.6*	*-9.2*	*5.1*	*1.6*	*0.8*
Net budget measures (2) (b)				**-1.4**	**-0.6**	**0.2**
Net budget measures excluding expected increase in tax revenue from expansionary measures (b')				-1.4	-1.3	-0.9
Policy net borrowing (c=a+b)	**-2.2**	**-1.6**	**-10.8**	**-7.0**	**-4.7**	**-3.0**
Change on previous year (c')	*0.2*	*0.6*	*-9.2*	*3.8*	*2.3*	*1.7*

Source: based on data from the 2020 Update and the summary of financial effects attached to the 2021 Budget Bill.
(1) Totals may not match due to rounding of decimals. – (2) The resources funding the budget package include the expected increase in tax revenue from expansionary measures for 2022-2023, equal to €12.9 billion and €20.5 billion, respectively, or 0.7 per cent and 1.1 per cent of GDP.

Achieving these objectives depends on the outcome of budget planning that, as highlighted above, also reflects the impact of the use of European funds on GDP growth and, consequently, the feedback effects of expansionary measures on public finance aggregates, especially for the 2022-2023 period. Indeed, the new policy scenario reflects a net budget package impact that increases the nominal trend deficit by 1.4 percentage points of GDP in 2021 and 0.6 percentage points in 2022 and that reduces it by 0.2 percentage points in 2023, also incorporating the favourable feedback effects of the improvement in macroeconomic conditions with respect to the trend in 2022-2023, which also reflects the use of NGEU grants.

According to the EFD Update, the growth differential with respect to the trend scenario is largely attributable to the budget measures, whose expansionary nature is also justified by the need to support income and employment at a time when the COVID-19 pandemic will still adversely impact economic activity. In the second part of the period, the most significant boost to growth will come from the subsidy component of the NRRP, which should make it possible to significantly increase general government investment in tangible and intangible assets, increase spending on research, education and training, and stimulate greater private investment without leading to additional borrowing.[31]

Note that the evolution of the public finance figures, on the one hand, appears to depend on forecasts for the macroeconomic scenario that are still exposed to downside risks, as discussed in section 1, attributable to the resurgence of the COVID-19 pandemic, which has made it necessary to impose new measures to restrict mobility and economic activity, with possible repercussions for the growth outlook for 2021. On the other hand, the Government – as previously noted – has already announced its intention to assess the need for further deviations for the first three months of 2021 in January, in the light of developments in the pandemic.

31 See the 2019 Update, page 10.

More generally, the formulation of a policy scenario that will require the inclusion of NRRP funds within the budget process for multiple years is clearly a complex endeavour. It will entail a significant planning effort aimed at boosting economic growth and rebalancing the public finances, taking advantage of low interest rates. It will be indispensable to significantly upgrade government's capacity to identify growth-boosting measures, to plan and implement expenditure, to foster collaboration between its various levels – essentially, enhance the capacity to absorb European funds – as well as the need to create adequate mechanisms to monitor the execution and implementation of expenditure.

2.3 The budget package for 2021

The budget package contained in the Budget Bill presented to Parliament in the second half of November will be rounded out with other legislative measures that will fully define the use of the European funds available through the NGEU programme.

As noted earlier, the package will increase deficit compared with the trend by 1.4 percentage points of GDP in 2021 and 0.6 percentage points in 2022 (equal in absolute value to €24.6 billion and €12 billion, respectively) and decrease it by 0.2 percentage points in 2023 (€3.5 billion in absolute value): as discussed in section 2.2, official forecasts put general government net borrowing at 7.0 per cent of GDP next year, decreasing to 4.7 per cent in 2022 and still further to 3 per cent in 2023.

Note that the EFD Update indicated slightly different estimates for the net impact of the budget measures in 2021 and 2023: respectively, a worsening of the deficit by 1.3 percentage points of GDP and an improvement of 0.3 percentage points of GDP. These differences, however, considering the rounding of decimals, do not imply changes with respect to the policy objectives indicated in the EFD Update.

The impact of the budget package on the deficit incorporates, on the one hand, negative net revenue in 2021 (€3.7 billion), which will turn positive in 2022 (€11.5 billion) thanks to fiscal feedback effects, followed by an additional increase in 2023 (€13.8 billion). On the other side of the equation, net expenditure will increase in 2021 (€20.9 billion) and 2022 (€23.5 billion) but decrease to below net revenue in 2023 (€10.3 billion). The developments in net expenditure reflect progressively decreasing current and capital spending, with the latter – especially as a result of the measures contained in Section II of the Budget Bill – doubling from 2021 to 2022 but turning negative in 2023 (Table 2.10).

Compared with the trend scenario, the budget provides for expansionary measures (uses in Table 2.10) that are substantially similar in terms of GDP over the period, at 1.8 per cent in 2021, 1.9 per cent in 2022 and 1.7 per cent in 2023. The resources funding the measures are less than the planned uses, except in 2023. They grow over the three-year period, amounting to 0.4 per cent of GDP in 2021, 1.2 per cent in 2022 and 1.9 per cent in 2023. However, this is largely attributable to the feedback effects of the expansionary measures on revenue in 2022-2023, which are estimated by the Government at 0.7 per cent and 1.1 per cent of GDP respectively (Table 2.10).

For 2021, expansionary measures use €30.9 billion, with expected resources of €6.3 billion, with a consequent increase of €24.6 billion in the deficit (Table 2.11).

It should be noted that the expansionary impact of some measures reported in the summary table attached to the Budget Bill and, consequently, in the tables in this section is greater than their impact on net borrowing. These comprise measures authorised and financed using EU grants with no or limited impact on net borrowing, as their expansionary effect is offset by corresponding increases in revenue, as indicated below. By way of example, Article 185 of the Budget Bill provides for significant incentives for business investment that will be financed by the Revolving Fund referred to in Article 184, which is funded by EU transfers with no impact on net borrowing.

Under uses, many measures – largely those of an emergency nature – only impact the first year. The main initiatives concern the establishment of a fund to support the sectors most affected by the COVID-19 emergency, the extraordinary extension of the various wage supplementation instruments (CIG, solidarity funds), the purchase and distribution of SARS-CoV-2 vaccines, local and school public transport, grants under the "Nuova Sabatini" mechanism as well as the debt moratorium for micro-enterprises and SMEs.

The other main uses of resources also extend to subsequent years. Among the decreases in revenue, these long-term uses include making permanent the additional tax credit on the income of payroll employees and similar workers ("€100 bonus") and tax exemptions and relief measures, in particular the extension of those to incentivise employment in disadvantaged areas (the "Southern contribution relief" programme). Increases in expenditure include financing the fund for the universal allowance and the childcare services allowance, increasing the funding of the National Health Service (NHS), tax credits for investments in the South and to encourage business mergers. Resources are also

Table 2.10 – The budget package for 2021-2023 (1)
(millions of euros and percentage of policy GDP in EFD Update)

	2021	2022	2023
USES	**30,949.0**	**34,916.1**	**32,629.1**
As a % of GDP	*1.8*	*1.9*	*1.7*
Increases in expenditure	24,216.4	26,468.2	20,497.5
Current	*18,350.6*	*17,056.8*	*15,024.7*
Capital	*5,865.8*	*9,411.4*	*5,472.8*
Decreases in revenue	6,732.5	8,447.9	12,131.7
RESOURCES (a)	**6,313.8**	**22,923.7**	**36,096.9**
As a % of GDP	*0.4*	*1.2*	*1.9*
Fiscal feedback effects (b)		*12,900.0*	*20,500.0*
As a % of GDP (b')		*0.7*	*1.1*
Resources net of fiscal feedback (c=a-b)	***6,313.8***	***10,023.7***	***15,596.9***
As a % of GDP (c')	*0.4*	*0.5*	*0.8*
Increases in revenue (d)	3,026.3	19,953.2	25,915.8
Increases in revenue net of fiscal feedback (e=d-b)	*3,026.3*	*7,053.2*	*5,415.8*
Decreases in expenditure	3,287.5	2,970.5	10,181.1
Current	*1,079.0*	*1,310.3*	*1,884.8*
Capital	*2,208.5*	*1,660.2*	*8,296.3*
NET REVENUE	**-3,706.2**	**11,505.3**	**13,784.1**
Net revenue net of fiscal feedback	**-3,706.2**	**-1,394.7**	**-6,715.9**
NET EXPENDITURE	**20,928.9**	**23,497.7**	**10,316.3**
Current	*17,271.6*	*15,746.5*	*13,139.8*
Capital	*3,657.3*	*7,751.2*	*-2,823.5*
NET BORROWING	**-24,635.2**	**-11,992.3**	**3,467.8**
As a % of GDP	*-1.4*	*-0.6*	*0.2*

Source: based on data from the summary of financial effects attached to the 2021 Budget Bill and the 2020 EFD Update.
(1) Totals may not match due to rounding of decimals.

Table 2.11 – Impact of 2021 Budget Bill on the general government consolidated account
(gross amounts in millions of euros)

	2021	2022	2023
USES (1)	**30,949**	**34,916**	**32,629**
As a % of GDP	*1.8*	*1.9*	*1.7*
Increases in expenditure	**24,216**	**26,468**	**20,497**
Increases in current expenditure	***18,351***	***17,057***	***15,025***
Section I	*16,614*	*15,008*	*13,969*
Establishment of fund to be allocated to support activities most severely affected by COVID-19 emergency	3,800		
Fund for universal allowance and family services	3,208	474	474
Increase in NHS funding	2,010	940	944
Fund for urgent measures	800	500	500
Extension of various income support instruments (CIG, solidarity funds)	532		
Integrated Promotional Fund and other measures for internationalisation of firms	465	60	60
Municipal Solidarity Fund	417	656	781
Increase in resources for renewal of state-sector wage bargaining agreements	400	400	400
Fund for the exercise of the functions of the regions and autonomous provinces	400	300	300
Fund for purchase and distribution of SARS-CoV-2 vaccines	400		
Social Employment Fund	380	140	
Fund for the financing of legislative measures that are expected to be approved in 2021-2023	344	262	293
Extension of birth allowance paid on the basis of ISEE	340	400	
Other measures for the transport sector (incentives for multimodal sea and rail transport and others)	262	112	92
Other hiring and contract extensions	221	609	946
Fund to support local public transport companies	200		
New hiring and overtime in security sector (armed forces, law enforcement)	180	190	111
Fund for rationalisation of commercial network	151	131	150
Electronic student card for 18-year-olds (cultural purchases)	150		
Resources for school transport	150		
Fund to enhance and expand educational offering	118		107
Italian Red Cross fund	117	117	117
Integration of Sicilian tax collection operations into ADER and supplementation of grant to ADER	112	38	
Support for entities with structural deficits	100	50	
Repeal of 5% reduction in television license fee	99	99	99
Extension of *APE sociale* early retirement programme for disadvantaged categories	88	184	163
Extension of "Women's Option" early retirement programme	84	268	467
Fund for hiring in derogation from hiring authorisation under current legislation	36	167	298
Tax reform fund		8,000	7,000
Constitutional Court ruling reducing pensions calculated on basis of salary		158	163
Other measures	1,050	754	505
Section II (2)	*1,737*	*2,049*	*1,055*
Integrated Promotional Fund and other measures for internationalisation of firms	800	750	500
National civilian service programme	200	200	
Fund to support renters and purchase of primary residence	160	180	
National fund for asylum policy	108	98	98
Resources to support the disabled and non-self-sufficient	100	100	100
Fund for structural economic policy measures		350	100
Other measures	369	371	257
Increases in capital expenditure	***5,866***	***9,411***	***5,473***
Section I	*4,854*	*6,097*	*3,712*
Extension of tax credit for investment and R&D activities in the South	1,054	1,106	104
Development and Cohesion Fund	800	1,000	1,500
DTA tax credit for business mergers	772	2,316	
Abolition of €200,000 limit for disbursement in single instalment of "Nuova Sabatini" grants	370		
Special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMI	300		
Integration of Sicilian tax collection operations into ADER and supplementation of grant to ADER	300		
Increase in fund for the development of investment in the cinema and audio-visual industries	240	240	240
Establishment of fund for development and support for agriculture, fishing and aquaculture	150		
Fund for the financing of legislative measures that are expected to be approved in 2021-2023	140	200	250
Experimental mobility voucher programme	100		
Fund for promotion and development of policies of National Research Programme	100	100	100
Subsidies for development contracts in tourism sector	100	30	
Grants to the regions for investment in securing buildings and territories		100	100
Infrastructure equalisation fund		100	100
SME Guarantee Fund and ISMEA (agriculture guarantees)		500	1,000
Other measures	428	405	318
Section II (2)	*1,012*	*3,315*	*1,761*
Abruzzo 2009 earthquake reconstruction	(246)	(427)	(0)
Securing buildings and territory (local authorities)	(197)	(0)	(0)
Defence investment	(148)	(249)	(497)
Bridges and viaducts (provinces and metropolitan cities)	(49)	(139)	(99)
Italian rail infrastructure operator programme contract	(2)	(25)	(133)
Spending connected with military air and space operations	(0)	(884)	(0)
Investment for the development and modernisation of rail infrastructure	(0)	(816)	(0)
Other measures	(370)	(775)	(1,032)

Table 2.11 – *(cont.)* Impact of 2021 Budget Bill on the general government consolidated account
(gross amounts in millions of euros)

	2021	2022	2023
USES (1) ***(cont.)***			
Decreases in revenue	**6,733**	**8,448**	**12,132**
Section I	*6,733*	*8,448*	*11,817*
Additional tax credit on the income of payroll employees and similar workers made permanent	3,300	3,313	3,312
Contribution relief	2,304	2,970	6,840
Deferral of plastic tax and sugar tax	457	34	115
Exemption from withholding tax on profits of foreign collective investment undertakings	206	206	206
Exemption or reduction of annual omnibus fee for university students	173	173	173
Extension of tax credits for building renovations	133	1,414	884
DTA tax credit for business mergers		105	112
Other measures	160	233	175
Tax effects			***315***
Extension of tax credits for building renovations			315
RESOURCES (1)	**6,314**	**22,924**	**36,097**
As a % of GDP	*0.4*	*1.2*	*1.9*
Decreases in expenditure	**3,287**	**2,970**	**10,181**
Decreases in current expenditure	***1,079***	***1,310***	***1,885***
Section I	*1,079*	*1,310*	*1,885*
Fund for universal allowance and family services	340	400	0
Municipal Solidarity Fund	200	300	330
Citizenship Income Fund	196	474	474
Increase in NHS funding	117	117	117
Spending connected with military air and space operations	106	0	0
Fund for the exercise of the functions of the regions and autonomous provinces	100	0	0
Local authority contribution to public finances	0	0	350
Reorganisation of health services (greater digitalisation)	0	0	300
Central government contribution to public finances	0	0	292
Other measures	19	19	21
Decreases in capital expenditure	***2,209***	***1,660***	***8,296***
Section I	*2,207*	*1,159*	*3,715*
Development and Cohesion Fund	1,084	1,136	3,634
Tax credit for workplace anti-COVID measures	1,000	0	0
Reduction in funds and other funding measures	100	0	0
Other measures	23	23	81
Section II (2)	*2*	*501*	*4,581*
High-tech industrial activities (naval, aeronautical and aerospace sectors)	(0)	(0)	(813)
Spending connected with military air and space operations	(0)	(0)	(1,112)
Investment for the development and modernisation of rail infrastructure	(0)	(0)	(1,155)
Other measures	(2)	(501)	(1,501)
Increases in revenue	**3,026**	**19,953**	**25,916**
Section I	*1,870*	*3,378*	*2,495*
Reduction in fund for reducing tax wedge	1,150	1,426	1,426
Tax credit for DTAs in business mergers	309	1,003	309
Enhancement of mechanism to counter tax fraud using false VAT ceiling	207	375	375
Countering tax fraud in fuel sector	172	172	172
Fund for rationalisation of commercial network	0	124	167
Deferral of plastic tax and sugar tax	0	174	0
Other measures	32	103	46
Tax effects	***174***	***2,380***	***1,486***
Extension of tax credits for building renovations	174	734	0
Contribution relief	0	1,575	1,395
Other measures	0	71	92
Additional revenue changes linked to the measures **(Oneri riflessi)**	***983***	***1,296***	***1,435***
Fiscal feedback effects	***0***	***12,900***	***20,500***
NET REVENUE	**-3,706**	**11,505**	**13,784**
NET EXPENDITURE	**20,929**	**23,498**	**10,316**
Current	*17,272*	*15,746*	*13,140*
Capital	*3,657*	*7,751*	*-2,823*
NET BORROWING	**-24,635**	**-11,992**	**3,468**
As a % of GDP	*-1.4*	*-0.6*	*0.2*

Source: based on data from the summary of financial effects attached to the 2021 Budget Bill and the 2020 Update.
(1) Totals may not match due to rounding of decimals. – (2) The documentation sent to Parliament details the effects of the individual Section II measures exclusively in terms of the net balance to be financed. For current expenditure items, the effects in terms of net borrowing shown in the table are the same as those indicated in the Budget Bill. Capital expenditure is estimated by the PBO excluding measures deemed to have no impact on this balance (financial items) and applying to the individual measures an implementation coefficient consistent with the totals for refinancing and reprogramming indicated in the summary detailing the financial effects attached to the 2021 Budget Bill.

allocated for international peacekeeping missions, the renewal of state-sector employment contracts and new public-sector hiring as well as funds for local authorities to extend tax credits for upgrading the building stock.

Given the deterioration in the deficit in 2021-2022 associated with the budget measures, the financial resources covering the measures are limited, and are distributed broadly equally between expenditure and revenue. The decreases in expenditure are essentially attributable to the reduction of appropriations for a series of funds, while the increases in revenue are associated with the partial use of the resources of the Single Fund to reduce the tax burden on payroll employees, the strengthening of the fight against tax fraud and the effects of tax and social security contributions charged to employers connected with all measures increasing public employment income, due both to increasing the resources allocated for contract renewals and overtime and for new hiring.

For 2022-2023, the uses side includes the continuation of expenditure from the previous year and the more substantial effects of some of the measures to increase spending or reduce revenue – in particular, that for the dependent child allowance and the start of the tax reform from 2022, contribution relief for employers in the South, tax credits for building upgrades and the hiring of public-sector personnel – as well as the measures relating to the SME and ISMEA guarantee funds, infrastructure equalisation fund and the securing of buildings and territories of the regions and – for 2022 only – the reprogramming provisions contained in Section II of the Budget Bill.

With regard to the resources covering these measures, revenue increases sharply and – in 2023 only – expenditure decreases. The increase in revenue is essentially due to two phenomena: i) the estimated feedback effects on tax revenue of the expansionary impulse imparted by the net impact of the budget measures and EU grants; and ii) the fiscal effects induced by a number of specific measures, mainly contribution relief provisions. The decrease in expenditure in 2023 is attributable not only to the contributions of central and local government entities to the rebalancing of the public finances, but mainly to reductions associated with the reprogramming and defunding provisions contained in Section II of the Budget Bill.

Finally, uses include substantial resources for the entire three-year period – around €1 billion each year – that have been allocated to both current and capital account funds earmarked for urgent needs and expenditures that are expected to be implemented during the year.

As for the funds available under the NGEU programme, the Government has decided to use all those available to Italy, estimated at €209.7 billion. Box B2.1 provides information on the composition of European funds and a reconstruction of their use, drawing on the available documentation and the provisions of the 2021 Budget Bill. In particular, the Government has elected to use €121.2 billion of the funds for new measures (to be financed using the full amount of grants available, which total €82.1 billion, and “additional” loans of €39.1 billion) and to use the remaining €88.5 billion for measures already envisaged under current legislation, to be financed with “replacement” loans. These latter measures are accounted for in the Budget Bill, as their effects are already incorporated in the public finance trend scenario. The total volume of additional funds is instead indicated in the bill through the establishment of a revolving fund, albeit in highly aggregated and not very transparent form, with no distinction between grants and additional loans in their distribution over the three years.

Please note that grants have no impact on the public finance balances, do not contribute to the accumulation of debt and can have a favourable impact on GDP. Since the expenditure financed using these funds is covered by transfers from the EU, the impact on the deficit is zero.[32] On the other hand, the loans made available under the Recovery and Resilience Facility (RRF) for certain uses are a different source of financing from the normal methods of covering the borrowing requirement and may represent replacement or additional funding. Loans used to “replace” other forms of financing, i.e. financing measures already provided for under current legislation and in some cases already implemented, do not have an impact on the public finance balances or the debt, with the possible exception of savings on borrowing costs (which, however, the Government has prudently decided not to consider in the accounts), nor do they impart additional expansionary stimuli. “Additional” loans, i.e. a form of financing measures not currently included in current legislation, do impact the public finance balances, with a consequent expansionary effect compared with the trend scenario. The EFD Update specified that in the 2021-2023 period, part of the loans would be used as additional funding to finance measures in the budget package.

In the summary table of the financial effects of the Budget Bill, a total of €121.2 billion have been included in terms of the net balance to be financed (as measured on an commitment basis) and distributed over the 2021-2023 period because, in accordance with the provisions of the NGEU programme, the funds must be committed within the first three years. However, they can be used for payments over a period of six years, until 2026 (with the exception of the ReactEU programme, under which payments can be made over the 2020-2022 period).

The effects of the NGEU programme in terms of the borrowing requirements and net borrowing are not reported for two reasons. With regard to grants, the amounts are not given because – as noted a number of times previously – have no impact on the deficit, although it would have been desirable to distinguish items increasing or decreasing the deficit separately, at least in the Technical Report. As regards additional loans – which would affect the balances – the absence of an impact on net borrowing could reflect the non-activation of payments connected with new projects financed with EU loans in the 2021-2023 period, which, unlike in the EFD Update, could only occur in subsequent years.

[32] See Eurostat (2020), “Draft guidance note on the statistical recording of the Recovery and resilience facility”, 17 November.

Box 2.1 – Next Generation EU following the agreement of the European Council of July 2020 and the proposed use of the resources available to Italy according to the documentation related to the 2021 Budget Bill

On 27 May, the European Commission presented "The recovery plan for Europe" to address the economic and social repercussions of the COVID-19 pandemic,[33] which is founded on two pillars: i) NGEU, a new European instrument for recovery that will temporarily increase resources available at the EU level; and ii) the EU's long-term budget, namely the Multiannual Financial Framework 2021-2027 (MFF), which envisages the creation of new instruments and the reinforcement of key programmes compared with the previous MFF. The agreement reached by the European Council on 17-21 July confirmed the establishment of the NGEU programme.[34] The related regulations implementing the Plan are in the process of receiving definitive approval from the Council of the EU and the European Parliament.

NGEU is a package of various initiatives that appropriate resources for a range of different programmes in accordance with the different purposes to be pursued, with total resources of €750 billion at 2018 prices. By far the most important initiative is the establishment of the Recovery and Resilience Facility (RRF), with funding of €672.5 billion, of which €312.5 billion in the form of grants and €360 billion in the form of loans. The loan component will be disbursed entirely through this facility.

Conversely, the resources of the other instruments consist entirely of grants. Among these, the largest in quantitative terms is ReactEU (€47.5 billion). There are also smaller schemes: the Just Transition Fund (€10 billion), the Fund for Rural Development (EAFRD, €7.5 billion), InvestEU (€5.6 billion), the Horizon Europe programme (€5 billion) and finally the RescEU programme (€1.9 billion).

More specifically, €209.7 billion in resources are available for Italy, as assessed at the time of the presentation of the Budget Bill. At that time, the Government proposed to use €121.2 billion in funds for additional measures (financed by all the resources available for grants, in the amount of €82.1 billion, and by "additional" loans of €39.1 billion) and to use the remaining €88.5 billion as "replacement" loans, i.e. to finance measures already envisaged in current legislation.

The European documentation governing the programmes indicates that the funds must be committed in the first three years (2021-2023) and paid out with a six year period (2021-2026),[35] except for the ReactEU funds, which must be paid out in 2020-2022.[36] The procedure for using the ReactEU funds has just been completed with the approval of the Regulation by the European Parliament on 15 December 2020 (the Commission proposal of May 2020 was followed by the opinions of the two advisory bodies – the Economic and Social Committee and the Committee of the Regions – and the European Court of Auditors), with no allocation of funds in 2020 although interventions adopted as from 1 February 2020 were eligible.

Based on the (rather opaque) Italian documentation available, the reconstruction of use of NGEU funds by Italy is divided into several steps:

1. The data in Table I.2 of the EFD Update (page 12) makes it possible to provisionally calculate the funds available to Italy as equal to €205 billion.

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[33] For more details on the European Commission's May proposal, see UPB (2020), "*2020 Budgetary Planning Report*".

[34] For more details on Next Generation EU following the agreement of the European Council of July 2020, see UPB (2020), "Audizione informale del presidente dell'Ufficio parlamentare di bilancio nell'ambito dell'attività conoscitiva preliminare all'esame del Programma Nazionale di Riforma per l'anno 2020 e della Relazione al Parlamento predisposta ai sensi dell'Articolo 6, c. 5, della L. 243/2012", 28 July.

[35] See point A13 of the Conclusions of the European Council of 17-21 July 2020.

[36] See the proposed Regulation for the instrument issued by the European Commission in May 2020, page 2.

2. The Budget Bill (page 461 of AC 2790) indicates that grants under the ReactEU programme amount to €14.7 billion, therefore the figure of €10 billion reported in Table I.2 of the EFD Update has been updated. The note to Table I.2 warned that the data contained therein were based on a preliminary assessment and that the amounts in the table could change as a result of ongoing negotiations.
3. Therefore, the total funds available to Italy, updated at the time of presentation of the Budget Bill, are equal to €209.7 billion (205 + 4.7), which according to the Budget Bill will be used in full (page 9 of AC 2790).
4. The Budget Bill indicates that total additional funds (grants + additional loans) amount to €121.2 billion (given by the sum of the €120.7 billion indicated in Article 184 (grants + additional loans) and €0.5 billion indicated in Article 57 (grants) of the Budget Bill.
5. The difference between the total funds of €209.7 billion and the €121.2 billion of additional funds, equal to €88.5 billion, therefore represents replacement loans.
6. Article 184 of the summary of the financial effects of the Budget Bill indicates the resources for 2021-2023, equal to €120.7 billion, allocated to the Revolving fund for the implementation of the Italian NRRO", which will be used to advance amounts to the entities involved pending receipt of the grants from the European Union (as also indicated in the Technical Report, page 460 of AC 2790). These resources are reported in terms of the net balance to be financed (therefore on a commitment basis) and break down in to €34.8 billion for 2021, €41.3 billion for 2022 and €44.6 billion for 2023.
7. The summary also indicates the difference between €121.2 billion and €120.7 billion, equal to €0.5 billion, for 2021 in Article 57, relating to the establishment of the fund for active policies in the labour market deemed eligible by the European Commission under ReactEU programmes (as also defined on page 298 of AC 2790).
8. The grants are reconstructed from the values given in Table I.2 of the EFD Update, to which the increase in the ReactEU programme indicated in the Budget Bill must be added. Total grants are given by the sum of: €65.4 billion under the RRF, €14.7 (10 + 4.7) billion under the updated ReactEU, €0.85 billion from the Fund for Rural Development, €0.54 billion from the Just Transition Fund and €0.60 billion from other programmes, giving total grants of €82.09 billion, rounded to 82.1.
9. Therefore, the additional funds of €121.2 billion include €82.1 billion in grants and €39.1 (121.2-82.1) in additional loans.

Confirming these estimates, the Budget Bill (page 461 of AC 2790) indicates appropriations of resources under the RRF of €104.5 billion (grants and additional loans) which, when added to the €88.5 billion in replacement loans, produce the total of €193 billion attributed to the RRF in Table I.2 of the EFD Update. Furthermore, the Budget Bill (page 461 of AC 2790) indicates that, in addition to the €14.7 billion from ReactEU, additional funds of €1.982 billion have been appropriated (the sum of €0.85 + 0.54 + 0.60 billion given in Table I.2 of the EFD Update).

The establishment of a revolving fund for the implementation of the NGEU programme will make it possible to provide entities with national advances on EU resources in order to ensure the timely activation of the interventions to be implemented. Pending receipt of the European funds, the resources for Italy's advances of funding for projects eligible for the purposes of the NGEU programmes can be found by resorting to the liquidity held by the Treasury[37] or through new issues of government securities, which would subsequently be offset by European funding, which are to be disbursed within the year.

These uses total €121.2 billion, which €104.5 billion under the RRF, €14.7 billion under the ReactEU programme[38] and about €2 billion under other European programmes (such as the Just Transition Fund, the Fund for Rural Development and other minor initiatives). In the summary of the financial effects of the Budget Bill, almost all of these resources, equal to €120.7 billion – of which €34.8 billion in 2021, €41.3 billion in 2022 and €44.6 billion in 2023 in terms of net balance to be financed of the State budget – are reported in Article 184, with regard to capital expenditure programmes.[39]

The value of the projects eligible for the European programmes is – for the most part – given without a breakdown (€25.7 billion in 2021, €30.9 billion in 2022 and €37.4 billion in 2023, respectively 73 per cent, 74.8 per cent and 83.8 per cent of the total) within the total resources of the revolving fund. The measures for which a specific authorisation provision is already in place are indicated in the summary of the financial effects of the Budget Bill and amount to €9.5 billion in 2021, €10.4 billion in 2022 and €7.2 billion in 2023.

The measures already specifically identified that are fully or partially financed in advance through the revolving fund are reported as "memorandum items" in the summary under Articles 27 and 184. In particular, they include: i) contribution relief for the South (Article 27, partially financed); ii) a series of tax credits and support for investment (Articles 185 and 186). The summary also reports the appropriations for the fund established with Article 57 concerning the measures for active policies in the labour market included among those deemed eligible by the European Commission under the ReactEU programme, equal to €500 million in current expenditure for 2021 alone, which represents the difference between the total appropriation of €121.2 billion mentioned previously and the €120.7 billion indicated in Article 184 of the summary.

2.3.1 Main measures in the budget package

The main measures of the budget package can be identified within the classifications of the Budget Bill, indicating the cumulative use of net resources for the entire 2021-2023

[37] At the end of November, these resources amounted to €60.7 billion.

[38] Based on a preliminary assessment determined on the basis of ongoing negotiations, that programme was attributed €10 billion in the EFD Update. The total amount of European funds came to €205 billion in the EFD Update. With the current update of the amount of resources available under the ReactEU programme, the total rises to the €209.7 billion indicated previously.

[39] However, it should be stressed that some of the measures to be financed through the revolving fund, such as contribution relief in the South, do not represent an increase in capital expenditure. In terms of the net balance to be financed of the State budget, they represent current expenditure (in this case for transfers to INPS), but are still classified under the capital account in accordance with the so-called "prevalence" criterion.

period (Table 2.12 and Table 2.13 provide a breakdown that also distinguishes between net expenditure and net revenue).

The most significant measures concern provisions to *reduce the tax and contribution burden* (Section I, Part I, Title II, €26 billion), with funds being appropriated for tax reform, which also includes financing for the extension of the universal dependent child allowance to self-employed workers and those with insufficient income to benefit from tax credits. The reduction in the tax wedge for income from payroll employment up to certain thresholds (the "€100 bonus") has also been extended and contribution exemptions are envisaged for the hiring of young people and women.

With regard to *growth and investment* (Section I, Part I, Title III, €2.7 billion), the budget package extends, for 2021, tax credits for building upgrades and various measures are targeted at supporting investment and entrepreneurship, including subsidies for development contracts in the tourism industry, the extension to all SMEs of grants for capital equipment investment and support for agriculture, fishing and aquaculture.

The measures aimed at the *South and territorial cohesion* (Section I, Part I, Title IV, €7.1 billion, in addition to €200 million under the fund for territorial equalisation contained in Section I, Part I, Title XII, for a total of €7.3 billion), include contribution relief for employment in disadvantaged areas, the extension of the tax credit for investment in the South and for research and development and the aforementioned fund for infrastructural equalisation. These measures are financed in part with reductions in the Development and Cohesion Fund.

Further measures regard *corporate liquidity and recapitalisation* (Section I, Part I, Title V, €3.5 billion), including a new incentive for business combination through tax credits (DTAs), the extension of guarantees issued to support the liquidity of SMEs and the extension of the extraordinary moratorium on loan repayments for SMEs.

With reference to sectors relating to *work, households and social policies* (Section I, Part I, Title VI, €2.9 billion), the Social Employment Fund and those relating to wage supplementation are refinanced, while other measures are envisaged for pensions, including the extension of the "Women's Option" and the "*APE sociale*" early retirement scheme for the disadvantaged and of the birth allowance (the "baby bonus") paid on the basis of the equivalent economic status indicator (ISEE).

The resources allocated to *healthcare* (Section I, Part I, Title VII, €3.1 billion) include an increase in the level of the standard NHS funding requirement, support for health service employees and a fund for the purchase and distribution in 2021 of vaccines and medicines for COVID-19.

Table 2.12 – Effects of the 2021 Budget Bill on the general government consolidated account
(net amounts in millions of euros; increases (-) and decreases (+) in the deficit)

	2021	2022	2023
SECTION I			
Reduction of tax and contribution burden	-5,493.1	-10,800.8	-9,731.5
Fund for reform of the tax system	*0.0*	*-8,000.0*	*-7,000.0*
Increase in fund for universal allowance and family services	*-3,012.1*	*0.0*	*0.0*
Additional tax credit on the income of payroll employees and similar workers made permanent	*-2,149.8*	*-1,887.2*	*-1,886.2*
Contribution relief for hiring women and young people	*-246.7*	*-733.1*	*-830.5*
Other exemptions	*-84.5*	*-180.5*	*-14.8*
Growth and investment	-644.0	-778.1	-1,245.2
Extension of tax credits for building renovations, energy upgrading, furnishings, facade repairs, gardens	*41.0*	*-679.1*	*-1,198.2*
Sundry measures to support investment and entrepreneurship	*-685.0*	*-99.0*	*-47.0*
South and territorial cohesion	-2,856.9	-1,762.4	-2,714.9
Contribution relief for employment in disadvantaged areas	*-2,056.9*	*-662.4*	*-4,614.9*
Extension of tax credits for investment and R&D	*-1,053.9*	*-1,105.9*	*-104.0*
Reduction of Development and Cohesion Fund	*283.9*	*135.9*	*2,134.0*
Infrastructure Equalisation Fund	*0.0*	*-100.0*	*-100.0*
Other	*-30.0*	*-30.0*	*-30.0*
Liquidity and recapitalisation of firms	-763.1	-1,947.2	-803.0
DTAs	*-463.1*	*-1,417.2*	*197.0*
SME Guarantee Fund and other measures	*-300.0*	*-530.0*	*-1,000.0*
Work, households and social policies	-1,392.8	-754.5	-783.3
Safety net programmes	*-971.2*	*-139.9*	*-32.4*
Work and social policies	*-222.0*	*-136.7*	*-115.0*
Pensions	*-199.6*	*-477.9*	*-635.9*
Healthcare	-2,094.9	-634.9	-368.3
Schools, universities and research	-734.0	-479.9	-591.8
Culture, tourism, information and innovation	-685.1	-485.1	-345.1
Italian participation in European Union and international organisations	-372.4	-380.4	-392.9
Transport	-325.3	-157.4	-127.4
Environment	-44.5	-47.5	-15.0
Regions and local authorities	-1,017.0	-806.0	-851.0
Municipal Solidarity Fund and other measures for municipalities	*-467.0*	*-406.0*	*-451.0*
Regions and autonomous provinces	*-550.0*	*-400.0*	*-400.0*
Review and restructuring of public spending	0.0	0.0	700.1
Public employment	-590.0	-841.5	-1,014.5
New hiring, extension of fixed-term contracts, overtime and other	*-221.8*	*-327.3*	*-306.7*
Renewal of state-sector bargaining agreements	*-206.0*	*-206.0*	*-206.0*
School personnel	*-162.3*	*-308.2*	*-501.9*
Implementation of Recovery and Resilience Plan	-1.0	-1.0	0.0
Fight against tax evasion	378.5	545.8	545.8
Deferral of introduction of plastic tax and sugar tax	-457.2	140.0	-115.0
Integration of Sicilian tax collection operations (Riscossione Sicilia) into ADER	-412.0	-38.0	0.0
Additional revenue measures	1,016.3	20.7	7.5
Tax credit for workplace anti-COVID measures	*1,000.0*	*0.0*	*0.0*
Other revenue	*16.3*	*20.7*	*7.5*
Funds	-5,549.2	-1,021.5	-1,102.5
Establishment of fund to be allocated to support businesses affected most severely by COVID-19 emergency	*-3,800.0*	*0.0*	*0.0*
Fund for financing legislative measures - current account	*-344.2*	*-261.5*	*-292.5*
Fund for financing legislative measures - capital account	*-140.0*	*-200.0*	*-250.0*
Increase in fund for urgent measures	*-800.0*	*-500.0*	*-500.0*
Increase in Integrated Promotional Fund (Art. 72, para. 1, of DL 18/2020, for purposes indicated under letter d)	*-465.0*	*-60.0*	*-60.0*
TOTAL SECTION I	**-22,037.8**	**-20,229.8**	**-18,948.1**
SECTION II			
Refinancing, reprogramming and defunding	**-2,597.4**	**-4,662.5**	**1,915.9**
Fiscal feedback effects	0.0	12,900.0	20,500.0
TOTAL BUDGET PACKAGE	**-24,635.2**	**-11,992.3**	**3,467.8**

Source: based on data from the summary of financial effects attached to the 2021 Budget Bill.
(1) Totals may not match due to rounding of decimals.

Table 2.13 – Main measures in the 2021 Budget Bill
(net amounts in millions of euros)

Section	Title	Measure	2021	2022	2023
		NET EXPENDITURE	**20,929**	**23,498**	**10,316**
Section I - Part I	TITLE II - Reduction of tax and contribution burden	Fund for tax reform		8,000	7,000
		Fund for universal allowance and family services	3,012		
		Group total	*3,062*	*8,050*	*7,000*
	TITLE III - Growth and investment	Abolition of €200,000 limit for disbursement in single instalment of "Nuova Sabatini" grants	370		
		Establishment of fund for development and support for agriculture, fishing and aquaculture	150		
		Subsidies for development contracts in tourism sector	100	30	
		Group total	*685*	*99*	*47*
	TITLE IV - South and territorial cohesion	Extension of tax credit for investment and R&D activities in the South	1,054	1,106	104
		Development and Cohesion Fund	-284	-136	-2,134
		Group total	*800*	*1,000*	*-2,000*
	TITLE V - Liquidity and recapitalisation of firms	DTA tax credit for business mergers	772	2,316	
		Special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	300		
		SME Guarantee Fund and ISMEA (agriculture guarantees)		500	1,000
		Group total	*1,072*	*2,846*	*1,000*
	TITLE VI - Work, households and social policies	Extension of various income support instruments (CIG, solidarity funds)	532		
		Social Employment Fund	380	140	0
		Extension of birth allowance paid on the basis of ISEE	340	400	
		Fund for rationalisation of commercial network	151	131	150
		Extension of APE sociale early retirement programme for disadvantaged categories	88	184	163
		Extension of "Women's Option" early retirement programme	84	268	467
		Constitutional Court ruling reducing pensions calculated on basis of salary		158	163
		Spending connected with military air and space operations	-106		
		Fund for universal allowance and family services	-144	74	474
		Citizenship Income Fund	-196	-474	-474
		Group total	*1,405*	*1,021*	*1,013*
	TITLE VII - Healthcare	Increase in NHS funding	1,893	823	827
		Fund for purchase and distribution of SARS-CoV-2 vaccines	400		
		Italian Red Cross fund	117	117	117
		Reorganisation of health services (greater digitalisation)			-300
		Group total	*2,521*	*1,061*	*795*
	TITLE VIII - Schools, universities and research	Fund to enhance and expand educational offering	118		107
		Fund for promotion and development of policies of National Research Programme	100	100	100
		Group total	*561*	*314*	*426*
	TITLE IX - Culture, tourism, information and innovation	Increase in fund for the development of investment in the cinema and audio-visual industries	240	240	240
		Electronic student card for 18-year-olds (cultural purchases)	150		
		Repeal of 5% reduction in television license fee	99	99	99
		Group total	*685*	*485*	*345*
	TITLE X - Italian participation in European Union and international organisations	*Group total*	*72*	*83*	*94*
	TITLE XI - Transport and the environment	Other measures for the transport sector (incentives for multimodal sea and rail transport and others)	282	132	112
		Experimental mobility voucher programme	100		
		Group total	*342*	*205*	*142*
	TITLE XII - Regions and local authorities	Fund for the exercise of the functions of the regions and autonomous provinces	300	300	300
		Municipal Solidarity Fund	217	356	451
		Fund to support local public transport companies	200		
		Resources for school transport	150		
		Support for entities with structural deficits	100	50	0
		Grants to the regions for investment in securing buildings and territories		100	100
		Infrastructure equalisation fund		100	100
		Group total	*1,017*	*906*	*951*
	TITLE XIII - Review and restructuring of public spending	Local authority contribution to public finances			-350
		Central government contribution to public finances			*-350*
		Group total			*-700*
	TITLE XIV - Public administration and public employment	Increase in resources for renewal of state-sector wage bargaining agreements	400	400	400
		Other hiring and contract extensions	221	609	946
		New hiring and overtime in security sector (armed forces, law enforcement)	180	190	111
		Fund for hiring in derogation from hiring authorisation under current legislation	36	167	298
		Group total	*996*	*1,502*	*1,863*
	TITLE XV - Implementation of Recovery and Resilience Plan	*Group total*	*1*	*1*	
Section I - Part II	TITLE I - Fight against tax evasion	*Group total*	*1*	*3*	*3*
	TITLE III - Tax collection measures	Integration of Sicilian tax collection operations into ADER and supplementation of grant to ADER	412	38	
		Group total	*412*	*38*	
	TITLE IV - Additional revenue measures	Tax credit for workplace anti-COVID measures	-1,000		
		Group total	*-1,000*		

Table 2.13 – *(cont.)* Main measures in the 2021 Budget Bill
(net amounts in millions of euros)

			2021	2022	2023
		NET EXPENDITURE *(cont.)*			
Section I - Part III	**Funds**	Establishment of fund to be allocated to support activities most severely affected by COVID-19 emergency	3,800		
		Fund for urgent measures	800	500	500
		Fund for the financing of legislative measures that are expected to be approved in 2021-2023	484	462	543
		Integrated Promotional Fund and other measures for internationalisation of firms	465	60	60
		Group total	***5,549***	***1,022***	***1,103***
Section II (2)	**Refinancing**	Integrated Promotional Fund and other measures for internationalisation of firms	800	750	500
		Abruzzo 2009 earthquake reconstruction	(246)	(427)	(0)
		National civilian service programme	200	200	0
		Securing buildings and territory (local authorities)	(197)	(0)	(0)
		Fund to support renters and purchase of primary residence	160	180	0
		Defence investment	(148)	(249)	(497)
		National fund for asylum policy	108	98	98
		Resources to support the disabled and non-self-sufficient	100	100	100
		Bridges and viaducts (provinces and metropolitan cities)	(49)	(139)	(99)
		Italian rail infrastructure operator programme contract	(2)	(25)	(133)
		Fund for structural economic policy measures	0	350	100
		Group total	***2,749***	***3,663***	***2,816***
	Reprogramming	Investment for the development and modernisation of rail infrastructure	(0)	(816)	(-1,155)
		Spending connected with military air and space operations	(0)	(884)	(-1,112)
		High-tech industrial activities (naval, aeronautical and aerospace sectors)	(0)	(0)	(-813)
		Group total	***-1***	***1,701***	***-3,080***
	Defunding	***Group total***	***-1***	***-501***	***-1,501***
		NET REVENUE	**-3,706**	**11,505**	**13,784**
Section I - Part I	**TITLE II - Reduction of tax and contribution burden**	Reduction in fund for reducing tax wedge	1,150	1,426	1,426
		Contribution relief	-247	-733	-831
		Additional tax credit on the income of payroll employees and similar workers made permanent	-3,300	-3,313	-3,312
		Group total	***-2,431***	***-2,751***	***-2,732***
	TITLE III - Growth and investment	Extension of tax credits for building renovations	41	-679	-1,198
		Group total	***41***	***-679***	***-1,198***
	TITLE IV - South and territorial cohesion	Contribution relief	-2,057	-662	-4,615
		Group total	***-2,057***	***-662***	***-4,615***
	TITLE V - Liquidity and recapitalisation of firms	DTA tax credit for business mergers	309	899	197
		Group total	***309***	***899***	***197***
	TITLE VI - Work, households and social policies	Fund for rationalisation of commercial network		124	167
		Group total	***13***	***267***	***230***
	TITLE VII - Healthcare	Contributions charged to employers	426	426	427
		Group total	***426***	***426***	***427***
	TITLE VIII - Schools, universities and research	Exemption or reduction of annual omnibus fee for university students	-173	-173	-173
		Group total	***-173***	***-166***	***-166***
	TITLE X - Italian participation in European Union and international organisations	Exemption from withholding tax on profits of foreign collective investment undertakings	-206	-206	-206
		Group total	***-300***	***-297***	***-299***
	TITLE XI - Transport and the environment	***Group total***	***-28***		
	TITLE XIV - Public administration and public employment	Contributions charged to employers	406	660	848
		Group total	***406***	***660***	***848***
Section I - Part II	**TITLE I - Fight against tax evasion**	Enhancement of mechanism to counter tax fraud using false VAT ceiling	207	375	375
		Countering tax fraud in fuel sector	172	172	172
		Group total	***380***	***548***	***548***
	TITLE II - Restructuring of tax measures for the environment and public health	Deferral of plastic tax and sugar tax	-457	140	-115
		Group total	***-457***	***140***	***-115***
	TITLE IV - Additional revenue measures	***Group total***	***16***	***21***	***8***
Section II	**Refinancing**	Additional revenue changes linked to the measures *(Oneri riflessi)*	(150)	(200)	(151)
		Group total	***150***	***200***	***151***
	Fiscal feedback effects		***0***	***12,900***	***20,500***
		NET BORROWING	**-24,635**	**-11,992**	**3,468**

Source: based on data from the summary of financial effects attached to the 2021 Budget Bill.
(1) Totals may not match due to rounding of decimals. – (2) The documentation sent to Parliament details the effects of the individual Section II measures exclusively in terms of the net balance to be financed. For current expenditure items, the effects in terms of net borrowing shown in the table are the same as those indicated in the Budget Bill. Capital expenditure is estimated by the PBO excluding measures deemed to have no impact on this balance (financial items) and applying to the individual measures an implementation coefficient consistent with the totals for refinancing and reprogramming indicated in the summary detailing the financial effects attached to the 2021 Budget Bill.

The measures for *schools, universities and research* (Section I, Part I, Title VIII, €1.8 billion) include an increase in the education fund, as well as additional exemptions and reductions in the annual university fee for specific categories of students. In addition, university scholarships have increased and resources to be allotted between universities and public research bodies have been appropriated.

With regard to *culture, information and innovation* (Section I, Part I, Title IX, €1.5 billion), the student card for 18-year-olds has been refinanced for 2021 and the fund for the development of investment in the cinema and audio-visual industries has been increased.

A number of measures also regard *Italy's participation in the European Union and international organisations* (Section I, Part I, Title X, €1.1 billion), which include exemptions from certain taxes for foreign collective investment undertakings and the abolition of the regional petrol tax.

There are numerous, albeit relatively small, measures regarding *transport and the environment* (Section I, Part I, Title XI, €0.7 billion), including an increase in the "experimental mobility voucher programme" for 2021 alone and a range of other interventions (incentives for multimodal sea and rail transport and others).

With regard to measures targeted at the *regions and local authorities* (Section I, Part I, Title XII, €2.7 billion, excluding the €200 million relating to the territorial equalisation fund, which were included among the measures for the South), the Municipal Solidarity Fund has been increased to finance an expansion of social services and strengthen childcare facilities from 2022. Resources have also been appropriated for the special statute regions.

As for the *review and restructuring of public spending* (Section I, Part I, Title XIII, -€0.7 billion in 2023), both central and local government entities should contribute.

Numerous measures regard *public administration and public employment* (Section I, Part I, Title XIV, €2.4 billion), concentrated in an increase of resources for the renewal of public employment contracts and authorisations for new hiring and extensions of fixed-term contracts and overtime as well as expenditure for school personnel.

Part II includes *provisions regarding revenue* (Section I, Part II, Titles I-IV, with an improvement in the deficit of €1.6 billion), including measures to combat tax evasion, the deferral of the so-called plastic tax and sugar tax and provisions regarding tax collection.

The final part (Part III) of Section I is dedicated to a number of *funds* (Section I, Part III, €7.7 billion), with the establishment of a fund to support sectors most affected by the COVID-19 emergency and an increase in the fund for urgent measures, the funds for the financing of legislative measures that are expected to be approved in the 2021-2023 period and other measures for the internationalisation of businesses.

The measures contained in *Section II* complete the budget, with the refinancing, reprogramming and defunding of programmes that increase the deficit in 2021 and 2022, by €2.6 billion and €4.7 billion respectively, but decrease it in 2023 by €1.9 billion. Finally, the feedback effects on revenue of expansionary measures are specified, with an increase of €12.9 billion in revenue in 2022 and €20.5 billion in 2023, while these effects are not considered for 2021.

2.3.2 General remarks on the budget measures

In highly uncertain context regarding the pandemic and the macroeconomic scenario and considering the complexity of identifying effective and feasible growth-oriented measures (in addition to being eligible for the NGEU programme), the structure of fiscal policy is partially undefined. The budget contains a mix of emergency measures, certain structural interventions and broad guidelines on the use of European funds, accompanied by a series of detailed micro-sectoral provisions.

The package is embedded in a policy scenario of deficit and debt reduction, as confirmed in the last Report to Parliament, incorporating significant fiscal feedback effects and a macroeconomic scenario that, as discussed in chapter 1, appears to be characterised by downside risks to growth.

In the Report to Parliament, the Government confirmed the adjustment path set out in the Update. While this may be justified in the current climate of uncertainty, it would nevertheless be necessary for these assessments to take account of a new macroeconomic and public finance scenario, updated on the basis of the most recent information available, when the Government acts in January to evaluate the need for additional resources for the first quarter of 2021.

The budget package envisages net revenue that, excluding the fiscal feedback effects on revenue, remains lower than the trend scenario over the entire three-year period, particularly in 2023 given the measures to reduce the tax burden and contribution relief. Net expenditure is more than halved in that year compared with the previous two years. This is largely the effect of negative net capital expenditure. Net current spending, excluding emergency expenditure in 2020 (such as spending for the fund to support the most adversely affected sectors or wage supplementation programmes) actually increases from 2021 to 2022, followed by a slight decline in 2023, partly reflecting the contribution – limited and currently undefined – of central and local government entities to rebalancing the public finances. The sharp decline in net capital expenditure reflects the partial use of the Development and Cohesion Fund to finance other measures and the reprogramming and defunding measures contained in Section II of the Budget Bill. The Bill does not specify the latter, while the reprogramming of resources could in part reflect bringing resources forward to 2022.

It is again necessary to report the values of the individual expenditure items of Section II in terms of net borrowing given in the summary of the financial effects of the Budget Bill for a complete assessment of the budget package.

Actual developments in capital expenditure, however, are not yet identifiable given the absence of information on the temporal distribution of the use of European resources, in particular grants. In fact, currently only a little more than €27 billion – 22.4 per cent of the total €121.2 billion in additional resources for grants and loans are specified. These are measures financed with grants and reported as "memorandum items" in the summary of the financial effects of the Budget Bill over in the three-year planning period.

Unusually, the revenue side includes estimated feedback effects on tax revenue as sources of funding for the 2022-2023 period. In fact, the improvement of the balance in the final year depends solely on this component. Excluding these effects, the permanent measures provided for in the Budget Bill (including the funds for the reduction of the tax burden and the single allowance) are mainly funded through deficit spending.

Fiscal feedback is the increase in revenue deriving from the interaction – as simulated by forecasting models – between the budget stimulus (including measures financed through EU transfers) and the reaction of the economy. It should be noted that prudential practice usually does not allow consideration of the impact of such feedback in the summary of the financial effects of a measure. In 2016, on the occasion of the presentation of the 2017 Budget Act, this impact was considered but involved much smaller amounts.

Given the scale of the plan for the use of European funds, the expected amounts generated by feedback effects are obviously significantly greater than in the past and, therefore, as already underscored by the PBO,[40] it would be important to clearly explicate the calculation.

However, as repeatedly emphasised, the Budget Bill provides insufficient information to determine the scale and timing of the use of EU grants in the 2021-2023 period. It is therefore not possible to either verify how expansionary the component of the overall budget attributable to these funds will be or, consequently, determine the size of the fiscal feedback effects associated with this expansion.

Assuming that the composition and timing of the use of European funds are similar to breakdown inferred from the Update, the estimated feedback effect indicated in the Budget Bill appears optimistic: simulations performed using the models of the PBO panel with the information available at the time of submission of the Update showed a smaller feedback effect than the amounts currently indicated in the Budget Bill, especially for 2023, a year in which the forecast in the Budget Bill is overestimated by at least a quarter.

[40] See "Audizione del Presidente dell'Ufficio parlamentare di bilancio nell'ambito dell'attività conoscitiva preliminare all'esame della Nota di aggiornamento del Documento di economia e finanza 2020", 12 October 2020.

Furthermore, developments in economic conditions (discussed in section 1) and the pandemic subsequent to the date of publication of the EFD Update have not been incorporated into a new macroeconomic scenario and therefore have not been incorporated into the trend developments contained in official documents.

Given the uncertain outlook attributable to the lack of definitive information on both the timing of the use of European funds and the drivers of trends, GDP and the public accounts on which it is based, the use of fiscal feedback estimates as source of funding in 2022-2023 represents a risk to the deficit and developments in the debt. This is particularly true if, as already pointed out by the PBO,[41] it is decided to use these estimated amounts to finance measures permanently increasing expenditure or reducing revenue, which require permanent funding in the long term.

In its opinion on 2021 DBP, the European Commission noted that some of the measures to support economic activity contained in that document do not appear to be temporary or matched by offsetting measures. It emphasised that given the level of Italy's government debt and high sustainability challenges in the medium term before the outbreak of the pandemic, it is important to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. The Commission therefore invited Italy to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

41 *Ibid*.

2.4 Developments in the debt/GDP ratio

According to the scenario delineated in the DBP, which retains the policy scenario of the EFD Update, the debt/GDP ratio is expected to increase to 158 per cent this year, an increase of 23.4 percentage points compared with 2019 (Table 2.14). From 2021, the ratio is expected to turn downwards, going from 155.6 per cent in 2021 to 153.4 per cent in 2022 and 151.5 per cent in 2023. This forecast would be 6.5 percentage point below the peak expected for this year but would still be nearly 17 percentage points above its level in 2019.

The policy debt/GDP ratio is expected to be 2.6 percentage points lower than the forecast end-of-period value for the trend ratio, equal to 154.1 per cent of GDP. Accordingly, the policy decline of 6.5 points is attributable to a greater extent to the component supported by the rapid trend GDP growth in 2022-2023.

Considering the national accounts data published by Istat in September[42] and the debt revisions published by the Bank of Italy in October,[43] the debt/GDP ratio was 134.4 per cent in 2018 and 134.7 per cent in 2019, representing a slight downward revision compared with the estimates published the previous March, when the ratio was 134.8 in both years.

If the dynamics of the debt/GDP ratio are broken down into their various determinants, the primary surplus makes a negative contribution in 2020-2022. Only in 2023 does that contribution turn slightly positive, lowering the ratio by 0.1 percentage points of GDP (Table 2.14).

Table 2.14 – Determinants of the policy change in the debt/GDP ratio (1)
(percentage of GDP and rates of change

	2018	2019	2020	2021	2022	2023
Debt/GDP ratio	134.4	134.7	158.0	155.6	153.4	151.5
Change in debt/GDP ratio	0.3	0.2	23.4	-2.4	-2.2	-1.9
Primary surplus (2) (accruals basis)	**-1.4**	**-1.8**	**7.0**	**3.7**	**1.6**	**-0.1**
Snowball effect (3), of which:	**1.0**	**2.0**	**15.2**	**-6.8**	**-4.4**	**-2.3**
Interest expenditure/nominal GDP	*3.6*	*3.4*	*3.5*	*3.3*	*3.1*	*3.1*
Contribution of nominal GDP growth	*-2.6*	*-1.4*	*11.6*	*-10.1*	*-7.5*	*-5.4*
memo: Average cost of debt	*2.8*	*2.5*	*2.4*	*2.2*	*2.1*	*2.1*
memo: net borrowing	*-2.2*	*-1.6*	*-10.5*	*-7.0*	*-4.7*	*-3.0*
Stock-flow adjustment, of which:	**0.7**	**0.0**	**1.2**	**0.6**	**0.6**	**0.6**
cash-accrual difference			*0.0*	*0.0*		
net acquisition of financial assets, of which:			*1.1*	*0.9*		
Privatisation receipts			*0.0*	*0.0*		
Debt valuation effects and other, of which:			*0.1*	*-0.3*		
Change in MEF liquid assets			*-0.2*	*-0.1*	*0.0*	*0.0*

Source: based on data from the 2020 Update and the 2021 DBP.
(1) Totals may not match due to rounding of decimals. – (2) A primary surplus with a positive sign indicates a deficit and therefore increases the debt/GDP ratio. – (3) The snowball effect is calculated as the sum of interest expenditure as a percentage of nominal GDP and the contribution of nominal GDP growth, given by $(d_{t-1}/PIL_{t-1})*(-g_t/(1+g_t))$, where d_{t-1} is the debt at time t-1 and g_t is the nominal GDP growth rate at time t.

[42] See Istat press release (2020), "Conti Economici Nazionali", 22 September.

[43] See Banca d'Italia (2020), "The Public Finances: Borrowing Requirement and Debt", 15 October.

The net borrowing reported in the DBP was revised for 2020, improving to 10.5 per cent of GDP compared with 10.8 in the EFD Update. However, the debt estimate remained unchanged, as the stock-flow adjustment was updated upwards from 0.9 to 1.2 per cent of GDP. Subsequently, the estimate of the deficit for this year was put at slightly over 10.8 per cent as a result of the four "Relief" decrees (137/2020, 149/2020, 154/2020 and 157/2020) and new data from the monitoring of the public accounts (see section 2.1). Accordingly, the debt/GDP ratio could remain around 158 per cent for 2020. For the following three years, the Report to Parliament of 20 November confirms the path of adjustment already indicated in the EFD Update last September. However, given the uncertainty about the evolution of the pandemic and the subsequent economic recovery, there is a risk of a downward revision of the macroeconomic scenario underlying the forecasts of the EFD Update, which could lead to an increase in the estimated debt/GDP ratio.

The impact of the snowball effect, which is linked to the differential between interest expenditure and nominal GDP growth, would increase debt in 2020 by 15.2 percentage points, of which 11.6 due to the contraction in nominal GDP and 3.5 to interest expenditure. In the following three years, however, the contribution of this component should foster a decline in the debt/GDP ratio, thanks to the strong recovery in nominal GDP growth and lower interest expenditure. Over the planning horizon, the average cost of debt is expected to gradually decrease from the 2.5 per cent recorded in 2019 to 2.1 per cent in 2023.

The stock-flow adjustment would have an adverse impact of about 3 percentage points of GDP over the four-year period. In 2020, this is largely due to a number of measures approved by the Government to combat COVID-19, which produced an impact on the borrowing requirement that was about €12 billion greater than that on net borrowing (see section 2.1, Table 2.2).

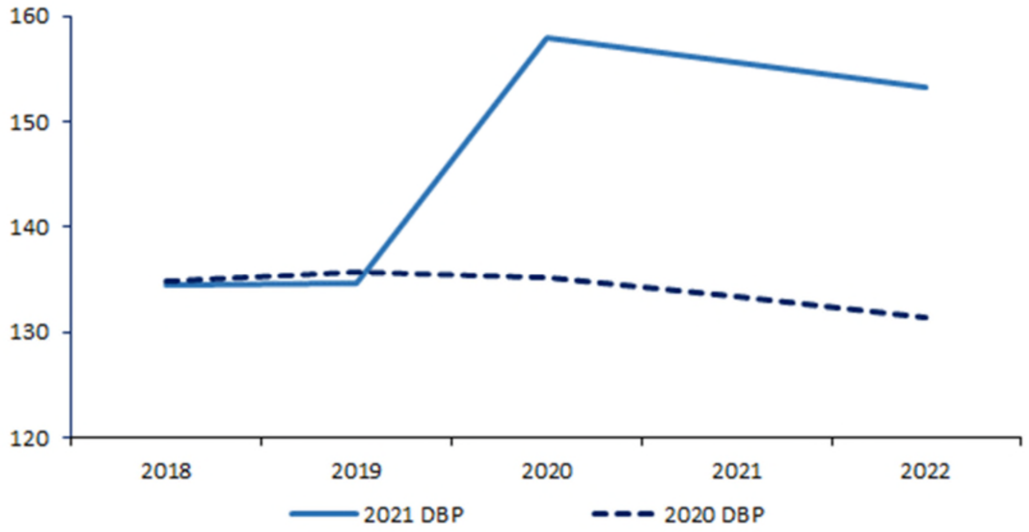
The policy forecasts in the EFD Update reflect an assumption of a decline in MEF liquidity holdings of 0.2 percentage points of GDP in 2020 and 0.1 point in 2021. The net acquisition of financial assets is equal to 1.1 per cent of GDP in 2020 and 0.9 per cent of GDP in the following year.

The scenario presented in the 2020 DBP showed a stable and progressive reduction in the debt/GDP ratio from 2020 to 131.4 per cent in 2022 (Figure 2.2). Compared with the 2021 DBP scenario, there is a difference of over 20 percentage points at the end of the three-year period.

In the year to the end of November, the Treasury placed more than €510 billion in securities on the market (about €120 billion more than in the same period of 2019), about 93 per cent of what it could have to issue overall in the year, net of European funding from the SURE programme, equal to €16.5 billion for this year. For the next three years, in addition to the remaining SURE funds of €10.9 billion, the EFD Update indicated that Italy will receive about €43.5 billion from EU loans under the RRF initiative. These loans, if confirmed, will make it possible not only to reduce interest spending compared with government securities[44] but also to diversify the sources of funding, enabling Italy to reduce its bond issues.

[44] Note that the estimates of interest expenditure presented in the NADEF do not include the savings due to the lower interest rate paid on the loans provided under the RRF compared with government bonds, nor do they reflect the effects of any reduction in the interest rate spreads induced by the favourable impact of the programme itself on potential growth and, therefore, on debt sustainability.

Figure 2.2 – Comparison of policy developments in the debt between the 2020 DBP and the 2021 DBP
(percentage of GDP)

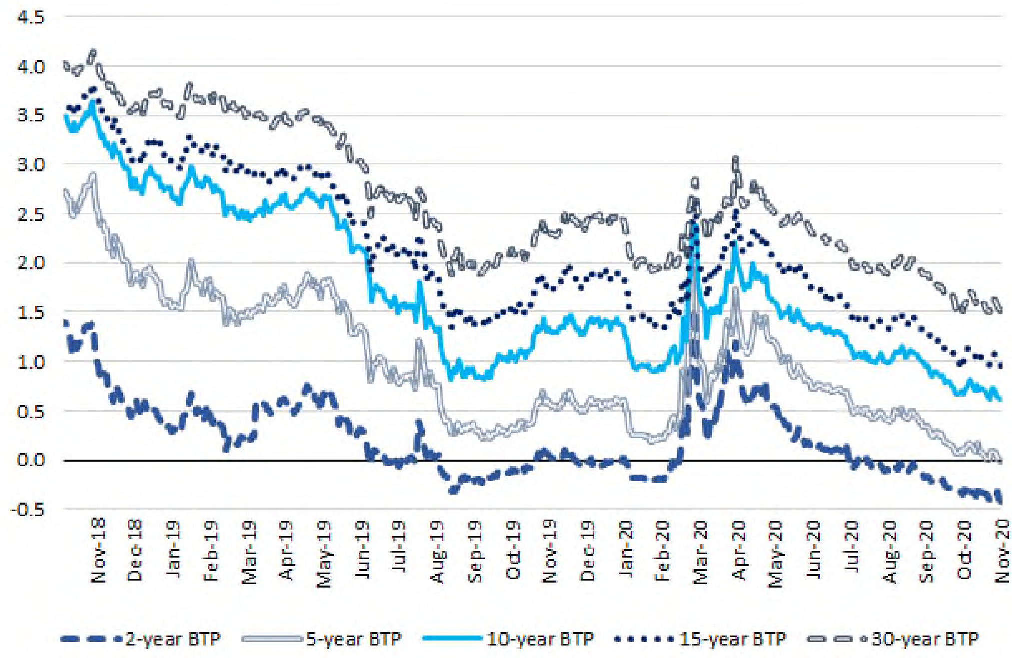


Source: based on data from the 2020 DBP and the 2021 DBP.

In order to meet the increased funding needs for 2020 deriving from the implementation of extraordinary measures to deal with the health emergency and to revive the national economy, the Treasury has introduced a degree of flexibility and innovation in its issuance strategy, including: (i) increasing the quantity of securities offered at auction; (ii) increasing the share of supplemental placements reserved for specialists in government securities; and (iii) making greater use of syndicated placements for the launch of new benchmark securities. Furthermore, in order to enable the broader involvement of retail investors, in addition to the issue of the BTP Italia in May, raising over €22 billion, a new instrument, the BTP Futura, was launched specifically for these investors in July and November, in the amount of €6.1 billion and €5.7 billion respectively. Finally, after 10 years, Italy also has returned to issuing on the US market. In November, a new 5-year US dollar SEC-Registered Global bond was issued in the amount of €3 billion.

Financial market conditions have improved in recent months in the wake of the ECB's monetary policy interventions, which have included the launch of the new Pandemic Emergency Purchase Programme to counter the increase in yield spreads, and the approval by the European Council of the NGEU plan. Recent developments in interest rates on the Italian government securities market have produced a decline of about 40 basis points across the entire yield curve compared with those recorded in September when the EFD Update was prepared (Figure 2.3). The forward rates implicit in the recent interest rate curve foreshadow a reduction in forecast interest expenditure compared with the estimate in September of about 0.1 percentage points of GDP in 2021 and 0.2 percentage points of GDP in 2022-2023.

Figure 2.3 – Government securities yields (BTPs at 2, 5, 10, 15 and 30 years) *(percentage points)*



Source: based on Refinitiv data.

2.4.1 The impact of the Eurosystem's purchase programme on the Italian government securities market

The Eurosystem has made substantial purchases on the government securities market this year. In the year to the end of November, the Eurosystem purchased a total of €166 billion in Italian government securities in the secondary market, of which €48 billion under the Asset Purchase Programme (APP) and €118 billion under the Pandemic Emergency Purchase Programme (PEPP).

Using a number of assumptions, the possible impact of the Eurosystem's purchase programme on the Italian government securities market for 2020 and 2021 can be estimated, i.e. the net flow of securities that will have to be absorbed by private investors.

Gross issues of government securities in 2020 were an estimated €552 billion, covering the borrowing requirement of €195 billion and maturing securities estimated at €376 billion, net of the use of the Treasury's liquidity account in the amount of about €3 billion, as indicated in the EFD Update, and loans under the SURE programme already paid to Italy in the amount of €16.5 billion (Table 2.15).

It is estimated that total purchases of financial assets by the Eurosystem in 2020 for the euro area as a whole amounted to about €1,140 billion, of which €360 billion under the APP and about €780 billion under the PEPP.

Table 2.15 – Gross issues of Italian government securities net of Eurosystem purchases

	2020	2021
State sector borrowing requirement (a)	195	146
Redemptions of government securities (b)	376	409
Change in Treasury liquidity account (c)	-3	-2
EU loans: SURE (d)	16.5	10.9
EU loans: RRF (e)	0	11
Gross primary market issues of government securities (f) = (a) + (b) + (c) - (d) - (e)	**552**	**531**
APP and PEPP secondary market purchases of government securities (g)	182	133
APP and PEPP secondary market reinvestment of maturing government securities (h)	34	40
APP and PEPP gross secondary market purchases of government securities (i) = (g) + (h)	216	173
Gross primary market issues of government securities net of APP and PEPP (l) = (f) - (i)	**335**	**358**

Source: based on data from the 2021 DBP, 2020 Update, ECB, Bank of Italy and MEF.

As regards future developments in these programmes, at its meeting of 10 December 2020 the Governing Council of the ECB decided to increase the PEPP envelope by €500 billion, bringing the total for the programme to €1,850 billion. It also extended the horizon for net purchases under the PEPP to at least the end of March 2022. Considering this decision as well, in 2021, in addition to the continuation of net purchases under the APP at a monthly pace of €20 billion, purchases under the PEPP are forecast to amount to €900 billion, bringing total purchases for the year to a level in line with those in 2020.

As regards the breakdown of Eurosystem purchases, it is assumed that on average 80 per cent of total purchases under the asset purchase programmes will be of government securities issued by euro-area countries, a figure based on published data of purchases made since the beginning of the COVID-19 emergency (from March to November). For 2020, it is assumed that the cumulative purchases of Italian government securities will continue to diverge from the capital key (i.e. the stake in the ECB's capital) in the month of December by the average margin observed in recent months. With this assumption, such purchases would be equal to 20 per cent of total purchases of government securities on average for the year. In 2021, it is assumed that purchases of Italian government securities will be in line with the capital key, equal to about 17 per cent, at the end of the year.

In order to estimate the reinvestment of principal repayments on maturing securities, the Italian capital key is applied to the aggregate data published by the ECB for total maturing government securities under the APP and added to an estimate of the reinvestment of maturing amounts under the PEPP.

With these assumptions, the Eurosystem's secondary market purchases of Italian government securities for 2020 are estimated at about €216 billion (of which €34 billion from the reinvestment of principal repayments on maturing securities), or 39 per cent of total forecast gross primary market issues of the Treasury (Table 2.15).

In this scenario, gross issues of government bonds net of Eurosystem purchases on the secondary market would amount to €335 billion. By comparison, it is estimated that in 2019 gross issues net of Eurosystem secondary market purchases were €384 billion. This confirms that, thanks to the expansion of the Eurosystem's purchase programme, the gross amount of government securities that the private sector is expected to have absorbed this year is smaller than last year.

In 2019, gross issues amounted to €414 billion, while the Eurosystem purchased an estimated €30 billion on the secondary market (of which €28 billion to reinvest principal repayments on maturing securities). Accordingly, gross issues net of Eurosystem purchases on the secondary market are estimated to have amounted to around €384 billion.

Estimated net issues of government securities net of Eurosystem purchases on the secondary market would be marginally positive and equal to about €3 billion (Table 2.16). This amount represents the net amount that private investors are estimated to have purchased during the year. The calculation also reflects the fact that the Eurosystem did not reinvest the principal repayments of maturing securities acquired under the Securities Markets Programme (SMP), i.e. the first programme of ECB intervention in the government securities market to preserve the financial stability of the euro area. Again for a comparison with the previous year, it is estimated that in 2019 net issues net of Eurosystem purchases on the secondary market were significantly higher, equal to about €58 billion.

Net issues of government securities net of Eurosystem purchases on the secondary market in 2019 were an estimated €58 billion and are calculated as the algebraic sum of net issues of government securities of €46 billion, repayments under the SMP equal to €13 billion net of €2 billion in net purchases by the Eurosystem.

For 2021, the EFD Update forecasts a borrowing requirement of €146 billion. The amount of medium/long-term securities maturing is expected to be equal to €229 billion (about €30 billion greater than this year), plus an estimated €180 billion in maturing short-term securities. However, the remaining loans under the SURE programme of €10.9 billion should be transferred to Italy and, according to the Update, the loans under the Recovery and Resilience Facility (RRF) will amount to about €11 billion, for a total of €22 billion in funding under EU instruments.[45] Therefore, with these assumptions, gross issues of

Table 2.16 – Net issues of Italian government securities net of Eurosystem purchases

	2020	2021
State sector borrowing requirement (a)	195	146
Change in Treasury liquidity account (b)	-3	-2
EU loans: SURE (c)	16.5	10.9
EU loans: RRF (d)	0	11
Net issues of government securities (e) = (a) + (b) - (c) - (d)	**176**	**122**
APP and PEPP secondary market purchases of government securities (f)	182	133
Maturing SMP government securities (g)	-10	-8
Net issues of government securities net of APP and PEPP and maturing SMP securities (h) = (e) - (f) - (g)	**3**	**-3**

Source: based on data from the 2021 DBP, 2020 Update, ECB, Bank of Italy and MEF.

45 In addition to these loans, we also need to include EIB loans for healthcare in the amount of €2 billion, of which an initial instalment of €1 billion was already disbursed in 2020 (see the MEF press release no. 176 of 30 July 2020). These loans are excluded from this analysis owing to the uncertainty of the timing of their full disbursement.

government securities will amount to an estimated €531 billion (down €20 billion compared with 2020).

According to the above assumptions, the total amount of Eurosystem purchases would fall to €173 billion (about €43 billion less than in 2020), or 33 per cent of the total gross issues of the Treasury, also considering the expansion of the purchase programme recently decided by the ECB. In this scenario, gross issues net of Eurosystem purchases in the secondary market would rise to €358 billion, compared with €335 billion in 2020 (Table 2.15). Net issues net of Eurosystem purchases in the secondary market would decline compared with 2020 to a negative €3 billion (Table 2.16).

Finally, it should be noted that in both 2020 and 2021 the share of government securities held by the private sector would decrease at the end of the year. In fact, the share of government securities held by the Eurosystem would rise from 17 per cent at the end of 2019 to 22 per cent in 2020 and 25 per cent in 2021.

2.4.2 Further examination of developments in the debt/GDP ratio

Sensitivity of the debt/GDP ratio to changes in the underlying macroeconomic variables

This section examines the sensitivity of the policy path of the debt/GDP ratio presented in the EFD Update with respect to alternative assumptions for the inflation rate and the real growth rate.

The baseline scenario for the analysis (the "Update scenario") is represented by the policy evolution of the debt/GDP ratio outlined by the EFD Update for the 2020-2023 period, which was retained in the 2021 DBP. The alternative scenario (the "PBO scenario") is based on the growth forecasts for real GDP and the GDP deflator developed by the PBO up to 2023 as part of the endorsement exercise for the policy scenario in the EFD Update.

In light of subsequent developments, growth in 2020 should be in line with Government forecasts, while the outlook for 2021 has deteriorated (see section 1.2.2 for further details).

In the PBO scenario, the ratio between the primary balance and GDP is calculated by applying an elasticity of 0.544 for this balance to the real growth differential between the PBO scenario and the EFD Update scenario, consistent with the estimates updated by the European Commission in 2019.[46] Similarly, an elasticity for the primary balance of 0.15 is applied to the inflation differential between the two scenarios.[47] It is also assumed that a change in inflation is

[46] Mourre et al. (2019), *The Semi-Elasticities Underlying the Cyclically-Adjusted Budget Balance: An Update & Further Analysis*, European Economy Discussion Paper, n. 098, European Commission.

[47] The impact of changes in the inflation rate on the primary balance was estimated on the basis of Attinasi et al. (2014), *The effects of low inflation on public finances*, making a number of specific adjustments to take account of

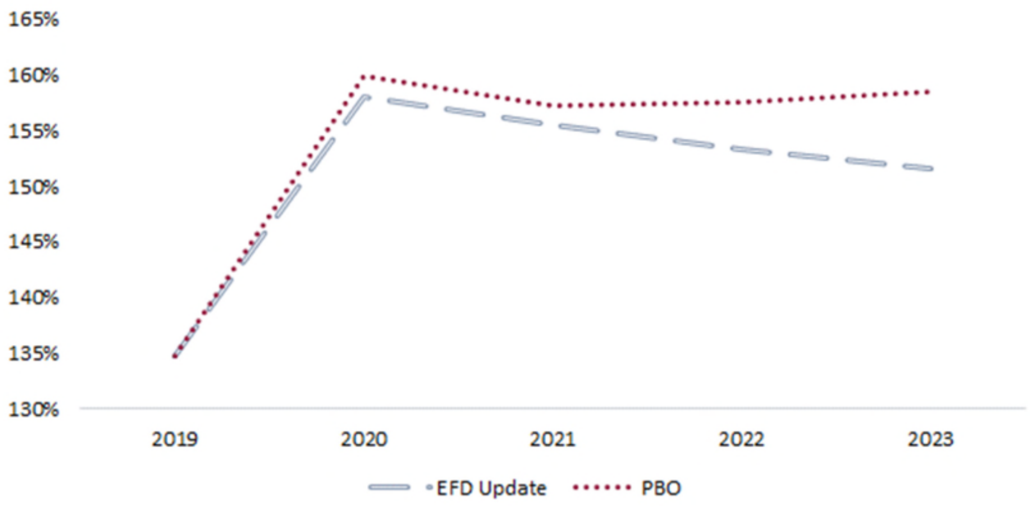
partially translated into interest rates and account is taken of the impact of the change in inflation on interest expenditure connected with inflation-linked securities.[48]

With these assumptions, the level of the debt/GDP ratio in the PBO scenario would be higher than that in the EFD Update scenario for the entire 2020-2023 period (Figure 2.4). As regards the dynamics of the ratio, after an initial decline in 2021, it would start to rise again as early as 2022. This is due to the fact that compared with the policy forecasts in the EFD Update, the PBO scenario is characterised by a steeper fall in nominal GDP in 2020 and a less rapid recovery in the following three years. At the end of the three-year period, with the macroeconomic assumptions of the PBO scenario, the debt/GDP ratio would be approximately seven percentage points higher than in the EFD Update policy scenario.

The incidence of Next Generation EU loans

The policy scenario for evolution of the debt/GDP ratio through 2026 presented in the 2020 EFD Update takes account of the impact of the use of the European resources made available under the NGEU programme.

Figure 2.4 – Sensitivity of the debt/GDP ratio to growth and inflation assumptions *(percentages)*



Source: based on 2020 EFD Update data.

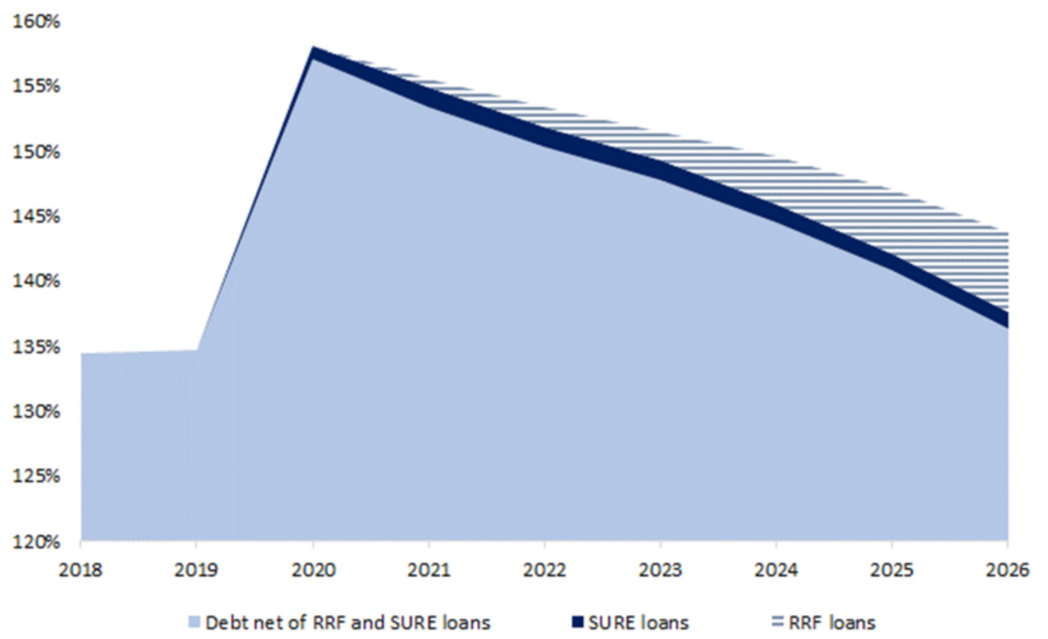
changes in Italian legislation governing the indexing of a number of major expenditure items in the years following those considered in the cited work.

[48] See also Parliamentary Budget Office (2016), "2017 Budgetary Policy Report", Appendix 3.3. It should be noted that the methodology for estimating interest expenditure in alternative scenarios has recently been improved by revising the breakdown of the debt into its various components (inflation-linked securities have been moved from the short-term component to the non-maturing long-term component) and introducing a link between the yield of index-linked securities and the inflation differential between the baseline and alternative scenarios.

Based on the allocation keys indicated by the European institutions, between 2021 and 2026 (the year by which the use of NGEU should be completed), the maximum ceiling for direct loans to Italy (set at 6.8 per cent of the beneficiary country's GNI) can be quantified at just under €128 billion (at 2018 prices). The profile of the use of these amounts implicit in the scenarios presented in this section is that envisaged in the EFD Update. It is also assumed that two-thirds of these funds are "replacement" loans and that the remainder are "additional". According to the decision adopted by the Council on a proposal from the Commission,[49] the approximately €27 billion in SURE loans must be added to the NGEU loans in relation to the increase in spending on social safety nets that has occurred since the current year.[50]

On the basis of the Government's policy objectives, the EFD Update forecast that over the next three years the ratio between total debt and GDP will fall by more than 6 percentage points (from 158 per cent in 2020 to 151.5 per cent in 2023), before continuing to decline in the subsequent three years to reach 143.7 per cent in 2026 (Figure 2.5). Considering the same policy scenario in the EFD Update, compared with 2020, the debt net of SURE and RRF loans would fall by 9.2 percentage points of GDP by 2023 and by 20.7 percentage points of GDP by 2026, when it would be more than 7 percentage points of GDP lower than total debt.

Figure 2.5 – Breakdown of the policy debt/GDP ratio
(percentage points)



Source: based on data from the 2020 EFD Update and the European Commission.

49 https://ec.europa.eu/commission/presscorner/detail/en/mex_20_1761#2.

50 Figure 2.5 takes account of the part of SURE resources (€16.5 billion out of €27 billion) received in two instalments between the end of October and mid-November and assumes that the remainder will be received in 2021.

3. MAIN MEASURES IN THE BUDGET BILL

In the context of the great uncertainty over the evolution of the pandemic and macroeconomic conditions, the budget package appears to be an amalgam of measures targeted at a variety of worthy goals but without a well-defined underlying budget policy design. This section describes and analyses the main provisions of the budget, dividing them into uniform groups: measures that continue the programmes introduced with the decrees issued since March to support the economy in the current crisis (section 3.1); measures aimed at fostering recovery in the coming years (section 3.2); programmes for households (section 3.3); measures concerning public employment (section 3.4) and pension matters (section 3.5); measures targeted at healthcare (section 3.6) and education (section 3.7); measures intended for the South (section 3.8); and measures to combat tax evasion and incentives for the use of traceable payment instruments (section 3.9).

3.1 Support measures to counter the health and economic crisis

The measures of the Budget Bill that continue the programmes introduced with the decrees issued since March to counter the economic impact of the health crisis include additional extensions of measures to support the labour market (section 3.1.1) and businesses (section 3.1.2).

3.1.1 Support for the labour market

The Budget Bill extends into the early months of 2021 the extraordinary package of anti-crisis interventions introduced for the first time in March and progressively expanded and calibrated in the light of information on health and economic developments, including: wage supplementation benefits for COVID-19 reasons (Article 54, paragraphs 1-7) or, alternatively, social security contribution relief (Article 54, paragraphs 8 and 9); the moratorium on firings for economic reasons (Article 54, paragraphs 11-13); the renewability of fixed-term employment contracts in derogation from the limits set under current legislation (Article 47). These measures are supplemented by others reviving the special wage supplementation (CIGS) programme (Articles 46 and 51), support for call centre workers (Article 48), allowances for workers affected by the mandatory suspension of fishing operations (Article 49)), support for employees of seized or confiscated companies (Article 50), and an increase in appropriations for the fund for the rationalisation of the commercial network, which is used to finance support for retailers who have ceased operations (Article 71).[51]

With regard to wage supplementation benefits for COVID-19 reasons, the Budget Bill provides a further 12 weeks of benefits that can be drawn from 1 January to 31 March for ordinary wage supplementation (CIG) beneficiaries (those who are normally insured with the fund) and from 1 January to 30 June for the recipients of ordinary allowances (those who are normally covered by the bilateral funds) or exceptional wage supplementation benefits for COVID-19 reasons (those who are not normally insured for the reduction/suspension of working hours). Periods of wage supplementation benefits for COVID-19 reasons already authorised under the provisions of Decree Law 137/2020 and occurring, in whole or in part, after 1 January are considered to be merged with the new 12 weeks. For agricultural workers, a further 90 days of CISOA for COVID-19 reasons are allowed between 1 January and 30 June and can be drawn in derogation from the normal limits for individual workers and agricultural employers (Table 3.1).[52]

The differences in the periods for which the instruments can be used is justified as an attempt to encourage a gradual return to the ordinary labour market safety net programmes. At the end of the first quarter of 2021, beneficiaries of CIG for COVID-19 reasons will still be able to access the programme for the ordinary reasons for which the programme can be activated (with no breach of the cumulative use limits thanks to the extraordinary COVID-19 justification), while for beneficiaries of the exceptional CIG programme and ordinary solidarity fund programmes, who are normally not insured by the wage supplementation programmes,[53] the use of the new weeks of eligibility can be planned over the entire first half of 2021, with more time available to prepare.

Access to the new weeks of benefits takes effect as from the date of entry into force of the Budget Bill. The potential pool of beneficiaries has therefore been expanded slightly, and this decision is understandable because, while in the aftermath of the pandemic explosion (February/March) it was necessary to insert a time limit (persons already

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[51] Recapitalisation is carried out by increasing the co-payment charged to those enrolled and, in part, public funding.

[52] With regard to the CISOA programme, the provision in the Budget Bill specifying that the number of days of CISOA COVID-19 benefits already authorised under the provisions of the earlier DL 104/2020 (a maximum of 50) and occurring, at least in part, after 1 January shall be incorporated into the new 90 days appears redundant: DL 104/2020 did not permit the use of the CISOA COVID-19 benefits after 31 December 2020.

[53] In theory, all workers at employers that while not qualifying for wage supplementation programmes are required to enrol in bilateral funds under the provisions of the 2015 Jobs Act (those employing more than 5 workers, including apprentices) are insured against the suspension/reduction of working hours. Nevertheless, it is plausible to assume that between 2015 and today few bilateral funds built up sufficient reserves to meet this demand independently (probably only funds existing prior to the Jobs Act could have done so). For a more detailed description of labour market safety net mechanisms after the restructuring of the sector with the Jobs Act, see Parliamentary Budget Office (2018), "Gli ammortizzatori del mercato del lavoro dopo il *Jobs Act*", Focus Paper no. 9.

Table 3.1 – Weeks of COVID-19 wage supplementation benefits for non-agricultural employers

Legislation	Measure	Beneficiaries	Benefits (2020: February – December; 2021: January – June)	Note
DL 18/2020	COVID-19 wage supplementation	Employees already working at 23/02/2020	9 weeks between 23 February and 31 August	(1)
DL 34/2020	COVID-19 wage supplementation	Employees already working at 25/03/2020	9 weeks between 23 February and 31 August + + 5 weeks if previous 9 used + + 4 weeks in September / October if previous 9+5 used	(1)
DL 104/2020	COVID-19 wage supplementation	Employees already working at 9/11/2020 (amended with DL 157/2020)	(3) 18 weeks between 13 July and 31 December divided into two tranches: the first 9 weeks free and, once these are used, the second 9 weeks subject to co-payment on benefit draws...	(2)
DL 104/2020	Contribution relief as alternative to wage supplementation		... as alternative to wage supplementation: 4 months of contribution relief up to amount equal to twice the number of wage supplementation hours used in May and June 2020	
DL 137/2020	COVID-19 wage supplementation	Employees already working at 9/11/2020 (amended with DL 149/2020)	(3) 6 weeks between 16 November and 1 January when all previous 18 weeks have been authorised and the period for their use has passed	
DL 137/2020	Contribution relief as alternative to wage supplementation		(4) ... alternatively: 4 weeks of contribution relief up to amount equal to the number of wage supplementation hours used in June 2020	(1)
2021 Budget Bill	COVID-19 wage supplementation	Employees already working at the date of entry into force of Budget Bill	(5) 12 weeks between 1 January and 31 March for CIG beneficiaries; 12 weeks between 1 January and 30 June for ordinary allowance or exceptional CIG beneficiaries	
2021 Budget Bill	Contribution relief as alternative to wage supplementation		(6) ... alternatively: 8 weeks of contribution relief up to amount equal to the number of wage supplementation hours used in May and June 2020	

23 February – 13 July – 16 November – 1 January: cumulative usage of COVID-19 benefits reset to zero for all

(1) The subsequent legislation replaces the previous. – (2) The subsequent legislation is connected with the previous. – (3) Wage supplementation benefits for the six new weeks are subject to co-payments on benefit draws. – (4) The option for four weeks of contribution relief is only available to employers who fully use COVID-19 wage supplementation authorised under Decree Law 104/2020 and do not use wage supplementation authorised under Decree Law 137/2020. – (5) Wage supplementation benefits for the twelve new weeks are not subject to co-payment. – (6) The option of contribution relief (not permitted for agricultural employers) must be used within the first quarter of 2021, with no distinction among the employees for whom the benefits are requested. The eight weeks of relief are added to any not used of those granted under DL 137/2020 (with a deadline for use of 31 January 2021).

employed at a specified date[54]) to prevent improper recourse to COVID-19 wage supplementation, workers hired subsequently on the basis of the new workforce planning of employers, which reflected at least in part the incentives introduced (contribution relief), were gradually integrated into the protection scheme.

Employers are not required to make a co-payment for drawings on the new 12 weeks, unlike the requirements established with the August degree (Decree Law 104/2020).[55] This is an unexpected change with respect to the trend of asking employers to share in the costs when they access the wage supplementation programme without having experienced a significant reduction in turnover due to the crisis.[56] This gives up a governance and accountability mechanism that could have helped channel resources to the most severely affected businesses. Another difference with respect to the earlier measures concerns the transition from the earlier mechanism to the new system. In the various previous measures, the new weeks of wage supplementation could only be drawn by employers who had already exhausted previous authorisations. In this case, however, the cumulative use ceiling for COVID-19 wage supplementation benefits is reset to zero for everyone from 1 January, regardless of need and choices made in 2020.

As an alternative to the new COVID-19 wage supplementation benefits, non-agricultural private employers can opt for a maximum of 8 weeks of contribution relief[57] to be used by 31 March in an amount equal to the number of hours of wage supplementation drawn in May and June 2020, re-scaled and applied on a monthly basis.[58] These 8 weeks are

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[54] It was set at 23 February in DL 18/2020, 25 March in DL 34/2020, and 13 July in DL 104/2020 and DL 137/2020. Note however that DL 149/2020 (the 2nd Relief Decree) had already extended COVID-19 wage supplementation benefits granted under DL 137/2020 to all persons employed at the date of its entry into force (9 November 2020), authorising an increase in expenditure above the level authorised with the earlier DL 137/2020 equal to €57.8 million in 2021 and €1 million in 2022 (Article 12). DL 157/2020 (the 4th Relief Decree) then extended COVID-19 wage supplementation benefits granted under DL 104/2020 to all persons employed at the date of its entry into force (9 November 2020), authorising an increase in expenditure of €35.1 million in 2021 and €0.6 million in 2022 (Article 13).

[55] Most recently, the Technical Report accompanying DL 137/2020 quantified the revenue generated by the co-payment on draws at just under €70 million for the 6 weeks of COVID-19 wage supplementation benefits. Assuming no change in the financial condition of firms, the revenue forgone by eliminating the co-payment in the first quarter of 2021 can be estimated at around €140 million.

[56] Among other things, the requirement for the co-payment on drawings was very prudent, completely exempting employers who had experienced turnover reductions of at least 20 per cent (the difference between turnover of the first half of 2020 compared with the first half of 2019) and applying a rate of 9 per cent in cases of decreases in turnover of up to 20 per cent and a rate of 18 per cent in cases of zero changes or increases.

[57] With the exception of INAIL premiums and no change in the notional rate for pension calculations.

[58] There is a difference with the exemption already granted under DL 137/2020, which referred only to hours of wage supplementation in June in granting a contribution exemption that could be used for a maximum of 4 weeks. In proposing the new 8 weeks of relief (double the previous period), it would also have been possible to refer to double the number of hours supplemented in June. Compared with such a choice, however, the reference to the number of hours of May and June implies a greater number of working hours for which employers can request the relief (the use of COVID-19 wage supplementation has been decreasing since April). This provides a relatively larger incentive to not reduce working hours so that the normal operation of offices and production facilities can resume as soon as possible. For more on the operating procedures for the contribution relief, see the INPS Circular 105/2020.

additional to the 4 weeks envisaged under Decree Law 137/2020 for use by 31 January 2021 for employers who do not have recourse to the additional COVID-19 wage supplementation benefits made available under the same decree for the period from 16 November 2020 to 31 January 2021.[59] In line with the changes to the wage supplementation rules, it would have been logical to also differentiate the periods of usability of the relief in accordance with the type of worker involved (CIG beneficiary, exceptional CIG beneficiary, bilateral funds beneficiary).[60]

The new weeks of COVID-19 wage supplementation and the extension of the contribution relief should be assessed together with the extension, until 31 March 2021, of the moratorium on individual or collective layoffs for economic reasons.

The estimates contained in the Technical Report are similar to those for COVID-19 wage supplementation in Decree Law 137/2020, using more recent data from the monitoring exercise conducted by INPS (updated to 3 November 2020). The pool of beneficiary workers is provided for each month (from March to June), broken down by wage supplementation programme (ordinary CIG, exceptional CIG, bilateral funds). The monitoring data enables tracking of the number of average per capita hours of wage supplementation each month and the value of the average hourly benefit (between €5.8 and €6.1/hour, including the household allowance[61]) only for beneficiaries receiving direct benefit payments. For the purposes of the estimation, these figures have been extended to the entire pool of beneficiaries, including those working for employers who have paid in advance wage supplementation benefits to workers and subsequently offset them against tax and contribution liabilities (balance payments).

The estimated increase in expenditure is based on the data for June, with figures for the associated beneficiaries,[62] per capita hours of wage supplementation benefits and the per capita amount of benefits, with separate reporting of imputed contributions:

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[59] Employers who had opted for relief under DL 137/2020 can waive the amount not used and access the new COVID-19 wage supplementation benefits.

[60] For example, for companies that make extensive use of part-time or intermittent employment contracts, three months may not be sufficient to benefit from a contribution relief for a number of working hours equal to the number of wage supplementation hours drawn in May and June thanks to the activation of COVID-19 wage supplementation.

[61] Note that in the transition from the monitoring data of 5 October used to quantify the impact in Decree Law 137/2020 to those of 3 November, the average hourly benefits for May went from €5.9 to €6.1, while those for the others months remained at about the same levels. As for the beneficiaries, the most important adjustment concerns June, with the addition of about 100,000 people (an increase of about 3.7 per cent). The adjustment of the average number of hours of wage supplementation in the month is also marginal and concerns May and June.

[62] Despite the fact that the INPS monitoring data runs up to the month of October, the Technical Report uses the data to June, for two reasons: first, in the monitoring exercise of November 3, the data on the beneficiaries with balance payments run to July, but it was most likely preferred to refer to the penultimate month in order to have more definitive figures; second, to reconstruct the overall beneficiary pool, it was necessary to refer to June for beneficiaries paid directly by INPS as well, despite the fact that the monitoring data runs until September for the latter.

- of the 1.1 million beneficiaries of ordinary COVID-19 CIG in June, it is assumed (on the basis of INPS administrative data) that 30 per cent work for employers who use all the additional 12 weeks;[63] the remaining 70 per cent continue to use the wage supplementation already available under Decree Law 137/2020 (or request benefits for ordinary reasons);[64]

- of the 1 million beneficiaries in June of COVID-19 wage supplementation through bilateral funds, it is assumed that 100 per cent work for employers who make use of all the additional 12 weeks;[65]

- finally, of the 0.7 million beneficiaries in June of exceptional COVID-19 CIG, it is assumed that 100 per cent work for employers who make use of all the additional 12 weeks.[66]

In all three cases, the beneficiary pool differs only marginally from that identified as beneficiaries of the COVID-19 wage supplementation benefits granted under the earlier Decree Law 137/2020 until the end of January 2021. In addition, it is assumed that 90 per cent of the previously identified workers will actually benefit from wage supplementation, as the remaining 10 per cent work for employers who will opt for the alternative contribution relief with an average contribution rate of 31 per cent.

As for COVID-19 CISOA benefits, it is assumed that 30 per cent of the 0.2 million agricultural workers with permanent contracts benefit from all 90 days granted.[67] This is the same beneficiary pool that the Technical Report accompanying Decree Law 104/2020 had estimated would use the 50 suspended working days granted through 31 December 2020.

Based on these assumptions, the Technical Report estimates the spending authorisation for new wage supplementation benefits in 2021 at €4.8 billion, of which just over €3.0 billion for direct benefits (including household allowances) and approximately €1.8 billion for imputed contributions. Contribution revenue would also decline by €155 million in

[63] Average hourly remuneration of €11.4, an average number of supplemented hours per month of 81, average per capita hourly benefit of €5.9 (including household allowance), and average imputed per capita hourly contributions of €3.8.

[64] In this case, the Technical Report states that 30 per cent (of 1.1 million) corresponds to the number of workers with employers who will have exceeded their periods of usability of wage supplementation benefits. Note, however, that even employers who in January will not have exhausted the usable weeks available under Decree Law 137/2020 could, theoretically, want to make use of COVID-19 wage supplementation in February or March and by then have no room under the normal CIG ceilings for traditional wage supplementation eligibility categories. From this point of view, the caution employed in other parts of the estimate shields against possible differences in the dynamics within this subgroup.

[65] Average hourly remuneration of €10.9, an average number of supplemented hours per month of 75, average per capita hourly benefit of €5.9 (including household allowance), and average imputed per capita hourly contributions of €3.6.

[66] Average hourly remuneration of €11.2, an average number of supplemented hours per month of 67, average per capita hourly benefit of €5.9 (including household allowance), and average imputed per capita hourly contributions of €3.7.

[67] Based on INPS administrative data, estimated average gross monthly remuneration of just over €1,500. The average monthly benefit of the household allowance is estimated at €50. The IVS pension rate for imputed contributions is 29.5 per cent.

2021, with tax effects induced in 2022 and 2023. In the summary of financial effects (Annex 3) of the Budget Bill, the measures cause an increase of only €532 million in net borrowing in 2021, taking account of the amount already incorporated in the trend scenario of the DBP.

Overall, the estimate appears conservative. First, it is based on the data for wage supplementation as of June and therefore does not take account of the downward trend in recourse to COVID-19 wage supplementation observed in the following months, at least with regard to direct payment beneficiaries. Second, it is assumed that of the nearly 2.9 million beneficiaries in June, slightly less than 65 per cent will take advantage of the new benefits for the full 12 new weeks. Finally, it does not take account of the partial overlap between the new weeks and those already granted under Decree Law 137/2020, which certainly involves the beneficiaries of the ordinary CIG programme and, to a lesser extent, those receiving benefits through the exceptional CIG and ordinary allowance programmes. For the former, both the Technical Report accompanying Decree Law 137/2020 and that for the Budget Bill assume the use of 4 weeks in January, apparently doubling the expenditure of €210 million[68] (of which €84 million in imputed contributions). For the beneficiaries in the second group, there may be no overlap, since they can use all of the new 12 weeks in months other than those to which the weeks authorised under Decree Law 137/2020 refer. In the extreme case that there was full overlap in January for them as well, a doubling of expenditure of about €1.1 billion could emerge (of which just over €410 million in imputed contributions). The overlap between the measures can act as a buffer in the event the decision to base the estimate on wage supplementation beneficiaries in June (the month in which the restrictions to tackle the first wave of the pandemic began to be eased) and the associated per capita benefit should prove to be too optimistic.

Other labour market support measures include the extension from 31 December 2020 to 31 March 2021 of the deadline for renewing or extending fixed-term contracts for a maximum of 12 months (without exceeding the overall 24-month limit on their duration (Article 47)).[69] At a time when the creation of new positions and transformations of fixed-term positions into permanent jobs are disadvantaged by the crisis, the option of retaining existing fixed-term employment relationships is being expanded, in the hope that these jobs will subsequently be stabilised as the economy improves.

The testing of the "expansion contract" programme has also been extended and strengthened (Article 62). Initially envisaged for companies with more than one thousand employees and valid only for 2019 and 2020 under the provisions of Decree Law 34/2020,[70] this contractual arrangement has been extended to 2021 and, for that year only, now includes companies with over five hundred employees. To encourage new

[68] See the estimation in the Technical Report accompanying DL 137/2020.

[69] The deadline of 31 December 2020 was established with DL 34/2020 as an exception to Articles 19 and 21 of Legislative Decree 81/2015 (as amended by DL 87/2018, the so-called "Dignity Decree").

[70] Article 26-quater, paragraph 4, of DL 34/2020 amended the existing rules governing expansion contracts in Legislative Decree 148/2015 (implementing the Jobs Act).

permanent hires or staff retraining, companies, in agreement with the social partners, can suspend or reduce working hours for specified groups of employees or, for those close to retirement, take advantage of early retirement programmes. In the first case, the special wage supplementation programme (CIGS) can be used for a maximum of 18 months, which need not be continuous. In the second case, employers undertake, potentially in collaboration with the bilateral funds, to pay the job-leavers an allowance that can be added to NASPI unemployment benefits and to continue to pay to INPS the pension contributions that former employees need to qualify for a pension. To support the use of the expansion contract, the Bill authorises expenditure of €104.6 million in 2021, €135.1 million in 2022 and €7.5 million in 2023.

The Budget Bill expands the options for using the special wage supplementation programme for two other cases as well. Notwithstanding the limits set by the Jobs Act,[71] the possibility of activating CIGS benefits in the event of the suspension of operations[72] for a maximum total period of 12 months has been extended to 2021-2022 (Article 46). To this end, expenditure of €200 million in 2021 and €50 million in 2022 has been authorised. Furthermore, the possibility of using an additional 12 months of CIGS (over and above the normal limit on duration) has also been extended to 2021-2022 for strategically important firms (Article51),[73] with expenditure authorisations of €130 million for 2021 and €100 million for 2022.

3.1.2 Measures to support firms

In order to support firms during resurgence of the virus and the imposition of new restrictions on economic activity, the budget package continues the path laid out in the earlier decrees issued to counter the economic effects of the health crisis, proposing a range of measures to increase liquidity and encourage the recapitalisation of firms and interventions targeted at specific sectors.

Liquidity measures. – As regards measures to address the liquidity needs of businesses, the Budget Bill extends and rationalises the measures adopted previously. More specifically, it extends until 30 June 2021 both the extraordinary regime governing the grant of public guarantees and the exceptional moratorium on loan repayments. It also provides for further extensions of the operations of SACE's Italy Guarantee Fund. Finally, with a transitional regime (valid until February 2021), the Bill re-establishes the separation (provided for under the ordinary regulations) of the institutions – Central Guarantee Fund

[71] As an exception to Articles 4 and 22 of Legislative Decree 148/2015.

[72] The first such exception, for 2019 and 2020, was established with DL 109/2018.

[73] The first possibility of extension, for 2018-2020, was established with the 2018 Budget Act, which introduced Article 22-bis to Legislative Decree 148/2015 (implementing the Jobs Act).

and SACE – for the authorisation of guarantees to SMEs (up to 250 employees) and medium/large companies.[74]

With reference to the extension of the scope of the guarantees authorised by SACE with the Italy Guarantee Fund (pursuant to Article 1, paragraph 1 of Decree Law 23/2020), with methods similar to those envisaged for the SME Central Guarantee Fund, guarantees may also be issued for loans used for the renegotiation/consolidation of existing loans provided that additional credit equal to at least 25 per cent of the renegotiated loan is granted and that as a result of the transaction the cost of the credit is reduced or its term is increased. In addition, the Budget Bill extends the range of beneficiaries of SACE's guarantees, during the exceptional period and subsequently, to include not only banks, financial institutions and other entities authorised to grant credit, but also to national and international insurance companies authorised to operate the credit and surety segment. According to the explanatory report accompanying the legislation, this extension is justified in view of the role these companies play in sustaining corporate liquidity and supporting efforts to obtain national and international orders.

For medium-sized companies (with between 250 and 499 employees), in the period covered by the extension (from 1 January 2021 to 30 June 2021), transitional rules have been established for the transition from the current preferential treatment granted through the SME Central Guarantee Fund to that provided for under the Italy Guarantee mechanism, retaining the same conditions: guarantees issued at no charge, coverage of 90 per cent of loan value and a maximum value for guaranteed loans of €5 million. In this regard, note that the operation of the Central Guarantee Fund for medium-sized enterprises was introduced with the April decree (Decree Law 23/2020) for a limited period (31 December 2020). In this case, these firms will benefit from an extension of this regime until 28 February 2021, producing an overlap with the Italy Guarantee instrument, which will enable firms to choose between the two mechanisms.

This reorganisation will improve the operation of the SME Guarantee Fund, which in recent months has had to process a considerable number of loan applications. The daily counter available on the website of the Guarantee Fund established by the Ministry for Economic Development (MISE) shows that between 17 March and 13 December 1,481,358 applications were received, requesting financing of over €118 billion. The applicant firms represent over 30 per cent of all eligible firms and the financing requested is equal to about 22 per cent of the total potential amount of State-guaranteed financing made available to firms through the special regulations governing access to the SME Fund.

[74] For a description and quantitative analysis of the measures, see Memoria del Presidente dell'UPB del 30 aprile 2020 sul DDL di conversione in legge del DL 23/2020, Audizione del Presidente dell'UPB del 27 maggio 2020 sul DDL di conversione del DL 34/2020, the 2020 Budgetary Planning Report and Memoria del Presidente dell'UPB del 4 settembre 2020 sul DDL di conversione in legge del DL 104/2020.

For SACE, the limit of €200 billion on guaranteed loans that can be authorised, including extensions, remains unchanged.

From a financial point of view, the extension of the moratorium is backed by an increase of €300 million in the SME Guarantee Fund (Article 41), in addition to the €1.4 billion already allocated. The exceptional moratorium was initially set to last until 30 September under the provisions of the March decree (Decree Law 18/2020), but this had already been extended to 31 January with the August decree (DL 104/2020).

In order to ensure the operation of the SME Central Guarantee Fund during period covered by the extension, its funding has been increased by a total of 4.5 billion for the 2022-2026 period: €0.5 billion for 2022, €1 billion for 2023, €1.5 billion for 2024, €1 billion for 2025 and €0.5 billion for 2026 (Article 42). Overall, since March, to cover the risk of losses associated with the probability of default by firms, a total of €17.8 billion has been appropriated for the fund (€13.3 billion excluding the resources provided for in the Budget Bill). As of 13 December, risk provisions of about €10.8 billion had already been recognised.

Capitalisation measures. – With regard to measures to promote the financial rebalancing of firms, the Budget Bill (Article 42) again limits itself to extending, with amendments, a number of measures to incentivise the contribution of equity capital to small/medium-sized corporations (those with a turnover of between €5 million and €50 million) that experienced a reduction of more than a third in revenues in March and April compared with the corresponding period of 2019, that were originally introduced with the May decree (Decree Law 34/2020, Article 26, paragraphs 8-12).

More specifically, in order to qualify for the tax credit based on losses registered in 2020 as a result of the health crisis, the size of the capital increase of companies receiving the maximum benefit has risen from 30 to 50 per cent and can be carried out at any time through 30 June 2021.

Current regulations grant a tax benefit to both the funder and the company receiving the funds: the former is entitled to a tax credit of 20 per cent of the capital contribution, while the latter is eligible for a tax credit equal to 50 per cent of the losses registered in its 2020 accounts that exceed 10 per cent of shareholders' equity, up to a maximum of 30 per cent of the capital increase carried out. For each company, the capital increase cannot in any case exceed €2 million and the tax credit cannot exceed €600,000; while the total tax credit for all the shareholders providing funds to a single company cannot exceed €400,000.

With regard to the SME Capital Fund (established with Article 26, paragraph 12, of the May decree), the time limit for the fund to subscribe securities issued by certain companies benefiting from the tax credits has also been extended to 30 June 2021.

For the subset of these companies that have a turnover of more than €10 million and which have increased their capital by at least €250,000, the May decree accompanied the tax credit benefit with the possibility for them to issue bonds (notwithstanding the limits imposed in the Civil Code) in an amount up to the lesser between three times the capital increase (between €750,000 and €6 million) and 12.5 per cent of revenues. The securities could be subscribed by 31 December 2020 by the SME Capital Fund established at Invitalia.

As regards the financial effects of the extension of the preferential rules, the measures should not increase expenditure as the spending limit of €2 billion for 2021 envisaged in the original legislation has not been changed. However, a charge of €1 billion in terms of the borrowing requirement in 2021 is envisaged for the extension to 30 June 2021 of the time limit for the subscription of financial instruments by the SME Capital Fund. Conversely, the provision will have no financial effect in terms of net borrowing.

As already noted during the hearing of the Chairman of the PBO of 27 May 2020,[75] a general objective of these measures, at least for medium-sized firms, is to strengthen the financial structure of companies by fostering greater balance between companies' sources of funding, thereby creating more favourable conditions for investment, which will be key for the recovery and upgrading of production. Incentives for capital injections therefore appear to complement measures focused on guarantees of debt capital. The latter are enabling many companies to avoid possible liquidity crises, but this increase in debt threatens to further burden the balance sheets of companies already in debt, making it more difficult to obtain additional financing from the credit system, especially for companies that have incurred the greatest losses as a result of the COVID-19 emergency. Note also that the extension of the possibility of issuing bonds through the preferential channel of the SME Capital Fund is strictly conditional to the contribution of equity capital to the company, thus ensuring greater balance between the sources of external and internal financing. It should also be remembered that for the beneficiary companies, this preferential regime is added to the ACE, which is also designed to structurally foster the capitalisation of companies, but sharply enhances the incentive.

Finally, the Budget Bill provides for a tax incentive for business combinations carried out through mergers, demergers or transfers of a business that are approved in 2021 (Article 39). More specifically, the entity resulting from the merger or the absorbing incorporating entity is allowed to transform into a tax credit a portion of deferred tax assets (DTAs) in respect of tax losses and ACE surpluses accrued in tax periods prior to that in which the business combination is carried out and not yet set off or transformed into a tax credit. The rule sets a ceiling on the amount of DTAs that can be transformed, equal to 2 per cent of the total assets of the interested parties (excluding the entity with largest amount of assets). The transformation must take place in two separate financial years (25 per cent in the first year and 75 per cent in the second) and is subject to the payment of a commission, equal to 25 per cent of the total deferred tax assets transformed, to be paid in two instalments. The measure in the Budget Bill seems to be aimed at fostering business

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75 Audizione informale del Presidente dell'Ufficio parlamentare di bilancio sul DDL di conversione del DL 19 maggio 2020, n. 34 recante misure urgenti in materia di salute, sostegno al lavoro e all'economia, nonché di politiche sociali connesse all'emergenza epidemiologica da COVID-19, Commissione V della Camera dei deputati (Bilancio, Tesoro e Programmazione), 27 May.

combinations at the national level, with a pool of 7,065 potentially interested companies identified by the Technical Report.

The use of DTAs to incentivize business combinations had already been envisaged for the South in the "Growth Decree" (Decree Law 34/2019). In that case the maximum transformable amount was €500 million and the transformation could take place in equal instalments over 4 years (therefore the annual instalment was equal to 25 of the value of the DTAs). The measure was mainly introduced in response to crises at a number of southern credit institutions, which were to be bolstered through business combinations.

The Technical Report estimates that this incentive will increase net borrowing by €0.5 billion in 2021 and €1.4 billion in 2022 and decrease it in subsequent years (€0.2 billion in 2023, €0.4 billion in 2024 and €0.3 billion from 2025 to 2031).[76]

Sectoral measures. – The Budget Bill contains a number of sector-specific measures closely tied to those introduced in the decrees issued in May and August (Table 3.2). These measures operate both directly on the business side and on the demand side with tax expenditures (tax credits) in order to provide additional support to the sectors most severely damaged by the health emergency. Similarly to the provisions of the May decree, eligibility for the programmes is often conditional on having experienced an actual decline in turnover or revenues. Overall, the sectoral measures involve charges of €851 million in 2021, €449 million in 2022 and €329 million in 2023.

For businesses in the tourism sector – already the beneficiaries of numerous measures in the decrees issued in previous months – the measures include a significant reduction (from €20 million to €7.5 million) in the minimum overall investment threshold to qualify for development contracts in order to extend the instrument to a larger number of beneficiaries. Other measures include grants for agriculture, fishing and aquaculture. For the culture and entertainment sector, the legislation provides for additional grants in support of museums, archives and libraries. The fund for the development of investment in the cinema and the audio-visual industries is also increased. For the benefit of companies in the publishing sector, the tax credit for companies and workers who invest in advertising campaigns in the press or television and radio broadcasters, the credit for newsstands and that for newspaper or periodical publishers that purchase digital services have been extended for 2021 and 2022.

The measures targeted at the transport sector (the most numerous) largely envisage extensions of measures introduced with the decrees of May and August. The fund referred to in Article 89 of the August decree has been increased for the benefit of companies operating in road transport, expressly intended for the reimbursement of loan or lease instalments for investments carried out since 2016. With regard to maritime transport, grants are envisaged for port authorities and shipping companies that perform tourist services, for shipping companies flying the Italian flag involved in the transport of passengers and goods and for port terminals. The exemption from the payment of pension and welfare contributions for shipping companies involved in cabotage has been extended until 30 April 2021. Moreover, for companies in the rail industry, the measures include grants for companies that own and lease freight cars, an extension of the indemnity already provided for by Article 214 of the May decree and a reduction in the fee for use of railway

[76] The net effect of the increase in expenditure associated with the tax credit (€0.8 billion in 2021 and €2.3 billion in 2022) and the increase in net revenue deriving from the commission due for the transformation of DTSs, their deductibility for IRES and IRAP purposes and the decrease in future deductions of DTAs (€0.3 billion in 2021, €0.9 billion in 2022, €0.2 billion in 2023, €0.4 billion in 2024 and €0.3 billion from 2025 to 2031).

infrastructure for companies that operate transport services without public service obligations. Finally, the multimodal sea and rail transport incentives (Marebonus and Ferrobonus) have been refinanced, continuing the provisions of Decree Law 34/2020.

Table 3.2 – Sectoral support measures
(millions of euros)

Measures	Beneficiaries	Characteristics	Eligibility conditions	Impact on net borrowing 2021	2022	2023
Total measures				**851**	**449**	**329**
Measures for tourism (Art. 15)	Firms	Reduction in eligibility thresholds for development contracts		100	30	0
Measures for agriculture(Art. 21)	Firms in agriculture, fishing and aquaculture	Grants		150	0	0
Measures for culture (Arts. 96 and 97)	Workers and firms operating in cultural activities sector (museums) (Art. 183 DL 34/2020)	Grants		25	20	0
	Cinemas and audio-visual firms			240	240	240
Measures for publishing (Art. 101)	Firms/self-employed workers who invest in advertising campaigns in the press or on television/radio (Art. 98 DL 18/2020)	Extension of tax credit for 2021 and 2022		50	50	0
	Newsstands		Municipalities < 5,000 inhabitants and municipalities with only	15	15	0
	Publishers of daily newspapers and periodicals that purchase digital services (Art. 190 DL 34/2020)		At least one permanent payroll employee	10	10	0
Measures for transport (Arts. 119-123)	Passenger road transport firms not subject to public service obligations (Art. 89 DL 104/2020)	Relief for loan instalments and lease payments for 2021	The conditions take account of the decrease in costs associated with safety net programmes and additional costs connected with emergency	20	0	0
	Port authorities and shipping companies operating in tourism sector (Art. 199 DL 34/2020)	Grants	For firms: decrease in turnover between 1 August-31 December of at least 20% compared with same period of 2019	68	0	0
	Shipping companies involved in cabotage (Art. 88 DL 104/2020)	Exemption from payment of pension and social security contributions until 30 April 2021		28	0	0
	Italian flagged shipping companies transporting passengers or combined passenger/goods (Art. 89 DL 104/2020)	Grants	Reduction in ticket revenues in February-December 2020 compared with average for the same period of previous two years	20	0	0
	Port terminals			20	0	0
	Companies owning and leasing railway freight cars			5	5	5
	Companies benefitting from Marebonus and Ferrobonus multimodal sea and rail transport incentives			50	38,5	43,5
	Railway companies operating passenger transport services without public service obligations (Art. 214 DL 34/2020)	Allowances		30	30	30
	Railway companies operating passenger and goods transport services without public service obligations (Art. 196 DL 34/2020)	Reduction in the fee for use of railway infrastructure		20	10	10

3.2 Measures for recovery

Alongside measures specifically targeted at mitigating the economic effects of the health crisis analysed in the previous section, the Budget Bill contains others intended to promote recovery once the emergency is over. More specifically, the measures are aimed at boosting employment (section 3.2.1) and business investment (section 3.2.2).

3.2.1 Employment incentive measures

The Budget Bill contains measures designed to support employment, both open-ended and fixed-term, by expanding the contribution relief already envisaged in existing legislation for young people, women and workers in the South, i.e. categories with relatively higher rates of unemployment and non-permanent employment than the national average. The measures also include sectoral contribution relief (agriculture and sport).

Among the categories benefiting from the employment support measures, young people have the highest unemployment rate. In 2019, the unemployment rate for young people (15-29 years old) was 22.4 per cent, compared with a national average of 10 per cent. They are followed by workers in the South, with an unemployment rate of 17.6, and women, with an unemployment rate of 11.1 per cent. Although they have an unemployment rate only slightly more than one percentage point higher than the national average, the latter nevertheless have a significantly lower employment rate. In terms of the proportion of fixed-term contracts out of total employment relationships, young people (15-34 years) have the highest values (36.8 per cent compared with a national average of 17.1 per cent), followed by workers in the South (22.5 per cent) and women (17.5 per cent).

The total cost estimated in the Technical Report amounts to €296.7 million for 2021, €783.1 million for 2022 and €830.5 million for 2023.[77]

Contribution relief for young people. – The Budget Bill establishes a 36-month exemption for 100 per cent of employers' social security contribution liabilities in 2021-2022, up to a maximum of €6,000 per year, for those who hire on permanent contracts[78] (including those previously hired on fixed-term contracts) young people under the age of 36 and who have never had a permanent job (Article 4). For workers hired in Abruzzo, Molise, Campania, Basilicata, Sicily, Puglia, Calabria and Sardinia, the maximum duration of the exemption is extended to 48 months.[79] This is a temporary expansion of a structural

[77] The calculation includes sectoral contribution relief (agriculture and sport), which were not examined in this hearing, but does not include the contribution relief for the South analysed in section 3.8.

[78] For manual workers, office staff or supervisors only.

[79] The measure is subject to authorisation from the European Commission with regard to State aid to support the economy.

measure – the Youth Employment Incentive – introduced with the 2018 Budget Act (Law 205/2017) as amended with the 2020 Budget Act (Law 160/2019).[80]

The main changes introduced with the new measure can be summarised as follows: 1) the exemption has doubled from 50 to 100 per cent of the social security contribution liability of employers, as has the maximum annual limit (from €3,000 to €6,000); 2) the exemption is granted for the hiring of people up to 35 years of age, instead of up to 30 years as provided for under the legislation in force for 2021; 3) the maximum duration of the exemption is extended from 36 to 48 months for workers hired in Abruzzo, Molise, Campania, Basilicata, Sicily, Puglia, Calabria and Sardinia; and 4) the contribution exemption applies to employers who do not conduct individual dismissals for justified objective reasons or collective redundancies for workers with the same qualification as the employee hired in the same facility in the 9 months (instead of 6 months) following the hiring.[81]

The Technical Report accompanying the Budget Bill indicates a pool of 110,000 cases of permanent hires and transformations of contracts for people qualifying for the new benefit.[82] These beneficiaries were probably determined on the basis of the results of the implementation of the Youth Employment Incentive in 2019. The aggregate data of the INPS Observatory on Insecure Employment relating to the Youth Employment Incentive last year[83] show that the number of employment relationships established was substantially in in line with the indications in the Technical Report.[84] Figure 3.1 gives a breakdown by macro-area and industrial sector of the new hires and contract transformations that took place in 2019 qualifying for the Youth Employment Incentive and their share of total permanent hires and transformations recorded in the year. There is greater recourse to hiring young people in the North and in the services sector.

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[80] The expansion of the contribution relief provided for in the Budget Bill does not apply in the case of the transformation of an apprenticeship into open-ended employment and in the case of hiring students involved in work experience programmes or apprenticeships with the same employer for the purpose of obtaining a professional qualification or diploma, a secondary school diploma, a higher technical specialisation certificate or higher education apprenticeships. In these cases, employers shall apply current legislation, which in the case of the transformation of an apprenticeship into open-ended employment provides for a contribution exemption lasting for a maximum of twelve months and in the case of hiring of students in the above categories envisages an exemption of 100 per cent of social security contributions.

[81] The contribution exemption applies to employers who did not conduct individual dismissals for justified objective reasons or collective redundancies for workers with the same qualification as the employee hired in the same facility in the 6 months preceding the hiring. This obligation was already present in the 2018 Budget Act, but there was no reference to the qualification.

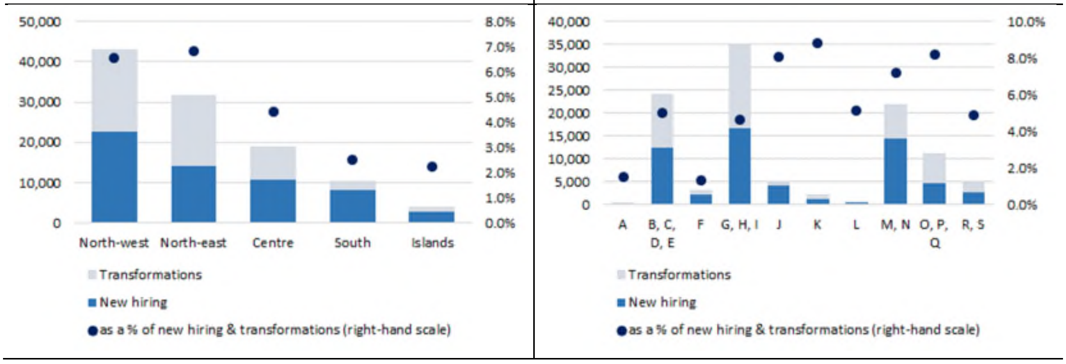
[82] The Technical Report also considers a substitution effect on 20 per cent of the pool of apprenticeship contracts and the induced tax effect.

[83] Osservatorio sul precariato INPS, January-August 2020, available online at https://www.inps.it/nuovoportaleinps/default.aspx?sPathID=%3b0%3b46437%3b51387%3b&lastMenu=51387&iMenu=12&iNodo=51387&p4=2, updated to November 2020.

[84] While marginal, the differences could be attributable to the fact that the Technical Report also considered the hiring of persons that would qualify for the exemption in 2021-2022 but did not qualify for the exemption in the previous three years and excluded the hiring of persons that benefitted from the exemption in 2019 but did not qualify for the extension in 2021-2022.

Figure 3.1 – Youth Employment Incentive in 2019

Breakdown by macro-area | *Breakdown by sector (1)*



Source: INPS Observatory on Insecure Employment.
(1) A = Agriculture, forestry and fishing; B = Mining and quarrying; C = Manufacturing; D = Electricity, gas, steam and air conditioning supply; E = Water supply; sewerage, waste management and remediation activities; F = Construction; G = Wholesale and retail trade; repair of motor vehicles and motorcycles; H = Transportation and storage; I = Accommodation and food service activities; J = Information and communication; K = Financial and insurance activities; L = Real estate activities; M = Professional, scientific and technical activities; N = Administrative and support service activities; O = Public administration and defence; compulsory social security; P = Education; Q = Human health and social work activities; R = Arts, entertainment and recreation; S = Other service activities.

The total cost, net of tax effects, is given as €200.9 million for 2021, €618.7 million for 2022 and €774.2 million for 2023, before decreasing in the years up to 2029.[85] In calculating the overall charge, account is taken of the fact that for those working in the South part of the relief is incorporated in the contribution relief for the South (see section 3.8).

Contribution relief for women. – The Budget Bill also provides for an exemption for 2021-2022 equal to 100 per cent of the social security contribution liability of employers, up to a maximum of €6,000 per year, for those who hire, on a fixed-term or permanent contract, unemployed female workers at least 50 years old or women of any age without regular paid employment for a specified period (Article 5).[86] The exemption is for 12 months for fixed-term hires and 18 months for permanent hires, provided that the hiring produces a net increase in employment.[87] This represents a temporary expansion – limited to the hiring of female workers only – of a structural measure introduced with Law 92/2012.

The contribution exemption provided for by Law 92/2012 – equal to 50 per cent of the social security contribution liability of the employer – applies not only to the categories addressed by the Budget Bill, but also to the hiring of workers at least 50 years old and unemployed for over 12

[85] For young people up to 29 years of age, the annual individual relief is calculated as the difference between the new maximum annual ceiling (€6,000) and the average relief observed in 2019 (€2,700), which would also be usable under current legislation. For young people aged 30 to 35, who from 2021 would not be eligible for relief under current legislation, €6,000 is used.

[86] More specifically, the measure regards women of any age in one of the following situations: (1) without regular paid employment for at least 24 months; (2) without regular paid employment for at least 6 months and residing in disadvantaged areas; (3) without regular paid employment for at least 6 months and working in a profession or economic sector characterised by an accentuated gender disparity in employment.

[87] The measure is subject to authorisation from the European Commission with regard to State aid to support the economy.

months. It is valid for 12 months in the case of fixed-term contracts, including temp workers, and for 18 months in the case of a permanent contract or the transformation of a fixed-term contract into a permanent position.

The Technical Report accompanying the Budget Bill identifies 25,000 potential permanent hires and transformations and 45,000 potential fixed-term hires of female workers eligible for contribution relief. This pool of potential beneficiaries is reduced by 31 per cent to take account of the fact that not all companies would meet the requirement for a net increase in employment. The total cost of the measure, net of induced tax effects, is €37.5 million for 2021, €88.5 million for 2022 and €41.5 million for 2023.[88]

Notes on the calculations. – The figures reported in the Technical Report are based, for both of the measures described, on INPS data for 2019. The decision to calibrate the expenditure forecasts on the basis of incentivised hiring that took place in 2019 may at first glance appear prudential, given the crisis under way and the low expectations for new hiring at least for the beginning of 2021, but it could prove to be insufficiently cautious, especially if we consider that the maximum value of the incentive has been doubled and that it is plausible that there could be a rebound in new hiring during the two years under review once the health crisis has passed.[89] The uncertainty about future macroeconomic developments makes it difficult to conduct an ex-ante assessment of the effects of the contribution relief and to break down new hiring into an "invariant deadweight component", that is, those who would have been hired anyway, a "transformed to permanent employment" component, i.e. those who would have continued to be employed with a non-permanent contract and a "new employment" component, i.e. those who would not have been employed. At the same time, it seems plausible, considering the fact that the two measures envisaged by the Budget Bill are expanding permanent measures, that the "time-shifting effect"[90] may not be as large as it would be with the introduction of an entirely new incentive, as happened, for example, with the introduction of the full contribution relief measures in 2015.[91]

3.2.2 Tax incentives for business investment

In order to revive investment, which was penalised by the health emergency in 2020, the Budget Bill provides for the extension and strengthening of incentive measures that had already been adopted in previous years. These measures complement those envisaged in 2020 both to support the liquidity of companies (expansion of public guarantees) and to

[88] The annual individual relief is calculated as the difference between the new maximum annual ceiling (€6,000) and the average relief observed in 2019 (€3,690), which would also be usable under current legislation.

[89] The dynamics of the labour market in the next three years will depend significantly on the use of resources appropriated for anti-crisis purposes at both the national and European levels (the Next Generation EU package).

[90] The time shifting effect that contribution relief for new contracts signed in 2021 and 2022 will have on new contracts that would have been signed towards the end of 2020 and the beginning of 2023.

[91] For a detailed summary, see PBO (2014), "2015 Budgetary Policy Report", pages 73 et seq. and PBO (2015), "2016 Budgetary Policy Report", pages 117 et seq..

encourage their recapitalisation (see section 3.1.2). More specifically, Article 185 provides for the extension until 31 December 2022 of both the tax credit for investment in new capital equipment, currently in force until 31 December 2020, strengthening and expanding its scope of application as from 16 November 2020, the tax credit for investment in R&D, technological innovation and other innovative activities, and the tax credit for costs for Industry 4.0 training.

Overall, for these measures, the Technical Report quantifies increases in expenditure of €5.3 billion in 2021, €6.7 billion in 2022, €7 billion in 2023, €4.1 billion in 2024 and €0.8 billion in 2025, which should be funded with the resources of the Next Generation EU programme.

Tax credit for investment in capital equipment. – The most financially significant measure is represented by the tax credit for investment in capital equipment. The size of the credit is differentiated by type of assets – tangible and intangible Industry 4.0 assets (indicated respectively in Annexes A and B of Law 232/2016) and other tangible and intangible assets – and by the value of the investment. In general, the incentive is expanded compared with the credit established with the 2020 Budget Act, which in turn replaced the increase in depreciation and amortisation rates (super- and hyper-depreciation/amortisation) in force in 2016-2019. Table 3.3 summarises the main characteristics of the tax credit envisaged in the Budget Bill and compares them with those of the existing tax credit and the increased depreciation allowance available until 2019. In particular, the new tax credit will be available for two years (2021-22) and its effective date has been moved forward to 16 November 2020. The preferential treatment will also apply to purchases finalised by the end of 2022 with payment of a deposit of at least 20 per cent of the amount and delivery by 30 June of the following year, bringing the final deadline to 30 June 2023.

For the purchase of new tangible capital equipment – excluding transport equipment not used in operations and assets with a depreciation rate of less than 6 per cent (mainly land and buildings) – the tax credit, for 2021 only, has been increased from 6 to 10 per cent (15 per cent in the case of equipment to enable flexible working arrangements). Until 2019, these assets were eligible for super-depreciation with an increase of 30 per cent in the depreciation allowance.

For the purchase of new high-tech tangible capital equipment (Industry 4.0 assets specified in Annex A of Law 232/2016), the spending ceiling has been increased from €10 million to €20 million and, for 2021, the tax credit has been increased from 40 per cent to 50 per cent for expenditure of up to €2.5 million and from 20 per cent to 30 per cent for expenditure of between €2.5 million and €10 million; for the portion of expenditure from €10 million to 20 million, the credit is calculated at 10 per cent in 2021 and 2022. Until 2019, these assets were eligible for hyper-depreciation, with an increase in the depreciation allowance based on the amount of the investment (not brackets): 170 per cent for investments up to €2.5 million, 100 per cent between €2.5 million and €10 million and 50 per cent between €10 million and €20 million.

For the purchase of intangible assets connected with high-tech investments (listed in Annex B of Law 232/2016), the ceiling rises from €0.7 million to €1 million and the tax credit from 15 to 20 per cent in both years. In this case, super-amortisation applied with an increase of 40 per cent in the amortisation allowance.

Table 3.3 – Investment incentives: from increased depreciation allowances to tax credits

Eligible investments	Investment class/bracket [1] (*millions*)	2019 Budget Act and DL 34/2019	2020 Budget Act	2021 Budget Bill	
		Period of application			
		1.5.2019-31.12.2019 (until 31.12.2020 if deposit of 20% paid in 2019)	1.1.2020-31.12.2020 (until 30.06.2021 if deposit of 20% paid in 2020)	16.11.2020-31.12.2021 (until 30.06.2022 if deposit of 20% paid in 2021)	1.1.2022-31.12.2022 (until 30.06.2023 if deposit of 20% paid in 2022)
		Increase in depreciation allowance and lease payments *(coefficient)*	Tax credit	Tax credit	
a) New capital equipment (excluding transport equipment not used in operations)	up to 2	30%	6%	10% [2]	6%
	2-2.5		0	0	0
b) New high-tech capital equipment (Annex A - Industry 4.0 Law 232/2016)	0-2.5	170%	40%	50%	40%
	2.5-10	100%	20%	30%	20%
	10-20	50%	0%	10%	10%
c) New intangible assets (software for technological transformation) (Annex B Law 232/2016)	0-0.7	40%	15% [3]	20%	
	0.7-1		0%		
	more than 1		0%	0%	
d) Other new intangible assets	up to 1	0%	0%	10% [2]	6%
Temporal allotment of benefit		Depreciation period	5 annual instalments	3 annual instalments	

(1) Classes for increased depreciation allowance and brackets for tax credit. – (2) The tax credit is increased to 15 per cent for equipment and devices used to enable flexible working systems. – (3) Divided into three annual instalments.

Finally, the tax credit is extended to other intangible assets, which had previously been excluded (including from the increase in amortisation allowance as well) with a percentage of 10 per cent in 2021 and 6 per cent in 2022.

The tax credit can be set off against tax liabilities (IRES, IRPEF, IRAP and VAT) in a smaller number of annual instalments: from the 5 provided for under current legislation to 3 annual instalments for non-Industry 4.0 tangible and intangible assets (categories a) and d) in the list can be entirely set off in the first year). Furthermore, the set-off can begin in the year the asset is acquired (2021 and 2022).

The Technical Report quantifies the financial effects for the different types of asset on the basis of an estimate of new investments in 2021 and 2022. This estimate is obtained using data from 2018 tax returns and taking account of the evolution of gross fixed capital accumulation in the macroeconomic scenario contained in the EFD Update (a decline of 13.1 per cent in 2020 and a subsequent rebound of 7.5 per cent in 2021).

More specifically, the following levels of investments are estimated for 2021 and 2022: €50.5 billion for capital equipment (formerly qualifying for super-depreciation), of which around €2.5 billion for flexible working; €16 billion for Industry 4.0 capital equipment (formerly hyper-depreciation); €3.4 billion for Industry 4.0 intangible assets and €1.7 billion for other intangible assets.

Taking account of the three-year allocation of the tax credit and assuming that the credit will be used entirely in the first year for non-4.0 tangible and intangible assets (categories a) and d) in the list), the Technical Report quantifies the total tax credit at approximately €26 billion (to be set off against tax liabilities) for the 2021-2026 period, of which €5.3 billion in 2021, about €6 billion in 2022 and 2023 and €3.3 billion in 2024 (Table 3.4).

From the point of view of the economic effects, the investment tax credit represents a reduction in the tax burden and is equivalent to a capital transfer granted by the State to firms in proportion to investment spending. As already noted, in 2020 this investment incentive replaced the increase in depreciation allowances introduced for the first time with the 2016 Budget Act, from which it differs in several respects:

a) first, the tax credit, defined directly as a percentage of value of the investment, produces a tax saving independent of the tax rate of the beneficiary. The increase in depreciation allowances, on the other hand, represents a deduction from the tax base and, consequently, the effective tax saving of the firm is determined by the tax rate, which is different for corporations and individuals (respectively, 24 per cent and between 23 and 43 per cent);

b) second, the tax credit can be set off not only against IRES and IRPEF but other taxes as well (IRAP and VAT) and, therefore, compared with the increased depreciation allowance, the constraint represented by the available taxable income of firms is less stringent;

c) third, both types of incentive allocate the investment subsidy over a multi-year horizon but use different criteria. With the tax credit, the allocation of the benefit is in general the same for all assets and with the new legislation it goes from 5 to 3 annual instalments, thereby increasing (for any given percentage of credit and discount rate) the present value of the tax savings. In the case of the increase in the depreciation allowance, the tax savings were distributed over the useful life of the asset. In this case, the present value of the tax savings, for any given increase, differs based on differences in the depreciation period: assets with a shorter depreciation period will benefit more than those depreciated over a longer period.

Table 3.4 – Financial effects of the tax credit in the Technical Report *(millions of euros)*

	2021	2022	2023	2024	2025	2026
a) New capital equipment	3,272	2,214	1,745	1,093	126	-15
b) New capital equipment (Industry 4.0)	1,716	3,392	3,704	1,898	198	23
c) New intangible assets (Industry 4.0)	186	412	457	271	45	0
d) Other new intangible assets	106	76	63	40	7	0
Total	5,279	6,095	5,969	3,301	376	8

Source: Technical Report accompanying the Budget Bill.

To assess the effective attractiveness of the new tax credit for companies in 2021 and 2022 compared with the existing credit and the increased depreciation/amortisation allowances in force until 2019, we can calculate the actual percentage tax savings on the cost of the investment for the different types of subsidised asset. Figure 3.2 shows this percentage for corporations and the three types of subsidies separately for type a) and type b) capital equipment (Industry 4.0 assets), using a discount rate of 1 per cent and the average useful life for the depreciation of the two types of asset (8 and 5 years respectively).

The enhanced tax credit proposed for 2021 in the Budget Bill is also more generous than the existing credit for both categories of asset. However, for type a) capital equipment it is less beneficial than the increase in the depreciation allowance for investments over €2 million and up to €2.5 million.

For 2022, the attractiveness of the benefit depends on the type of good. For type a) capital equipment, the proposed tax credit has a slightly higher present value than the current credit (due to the reduction of depreciation instalments from 5 to 3) and is less beneficial than the increase in depreciation allowances. For type b) capital equipment (Industry 4.0 assets), the new tax credit is more favourable than both the current credit and the increase in the depreciation allowance for investments exceeding €2.5 million.

In general, we can note that, like the increase in depreciation allowances and the existing tax credit, the new tax credit is available for all new investments over a certain period of time without distinguishing between the trend replacement component and the incremental component: the "deadweight" effect of the subsidy is implicitly incorporated in the instrument, for which a subsidy is also granted for the part of investments already planned by the companies involved and which would have been made even without incentives. This measure can therefore be classified, with regard to liquidity support, as a non-repayable grant.

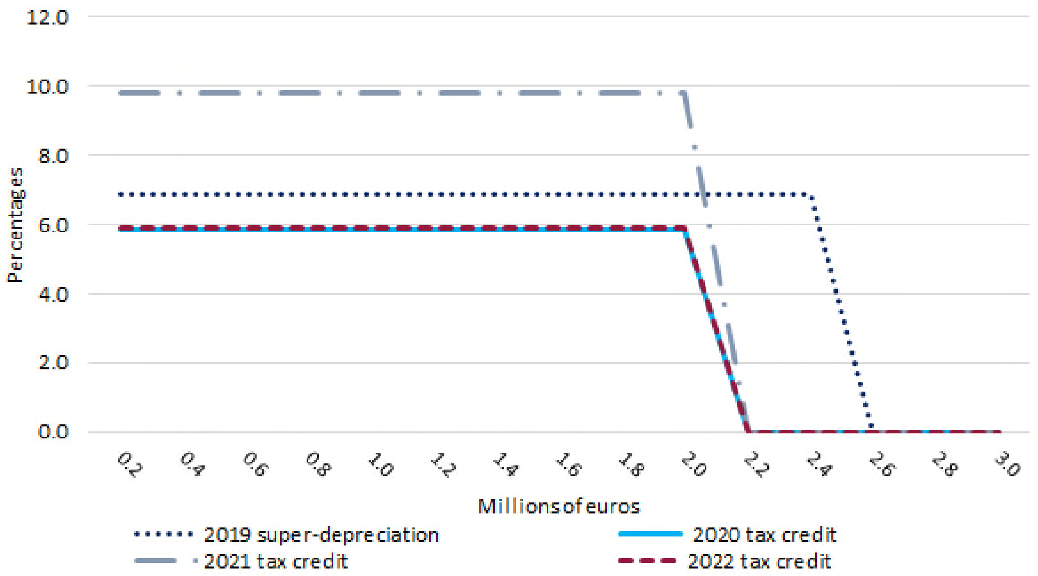
Tax credit for R&D and technological innovation. – With regard to the other measures for economic recovery, Article 185 (paragraph 14) extends the tax credit for research and development, technological innovation and other innovative activities provided for in the 2020 Budget Act (Article 1 , paragraphs 198-209), again increasing the benefit.

Recall that the 2020 Budget Act introduced a tax credit for investments in research and development, in the ecological transition and in Industry 4.0 technological innovation intended to strengthen the competitiveness of companies.[92] Businesses resident anywhere in the country are eligible for the credit, regardless of their legal form or sector. The measure differentiates the size of the credit depending on the type of investment made.

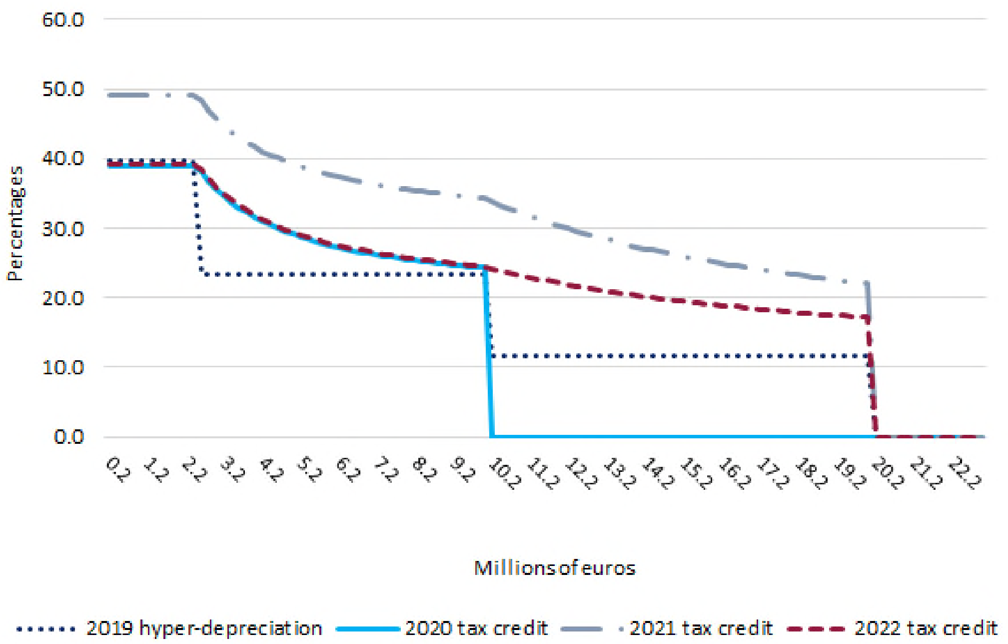
[92] This credit, which is valid for the tax period subsequent to 31 December 2019, essentially replaced the tax credit for R&D investment provided for under Article 3 of DL 145/2015, whose validity was terminated in advance in 2019.

Figure 3.2 – Present value of the tax savings of the investment incentive in 2019-2022
(discount rate of 1 per cent; percentage of total investment cost)

a) Investment in new capital equipment
(8-year depreciation period)



b) Investment in new high-tech capital equipment (Industry 4.0 assets)
(5-year depreciation period)



More specifically, the tax credit for investment in research and development is increased from 12 to 20 per cent and the spending ceiling from €3 million to €4 million; the credit for technological innovation and design goes from 6 to 10 per cent and that for green and digital investments from 10 to 15 per cent. In addition, for these categories the spending ceiling rises from €1.5 million to €2 million. The tax credit for Industry 4.0 training has also been extended until 2022 with an expansion of eligible costs in accordance with Regulation (EU) no. 651/2014.

In general, the incentive measures provided for in Article 185 can be combined with the tax credit for investments in Southern Italy (see section 3.8), to the extent that they concern the same investments, up to full coverage of the cost. Furthermore, it can be combined with other preferential schemes, such as the Nuova Sabatini instrument, which provides grants for the purchase of capital assets (tangible and intangible) based on the interest due on its financing. With regard to this latter measure, the Budget Bill (Article 16) provides for its disbursement, for all subsidised investments, in a single instalment, rather than over six years (with an increase of €0.4 billion in expenditure in 2021). Overall, all these measures provide a significant subsidy for business investment.

3.3 Measures for households

The largest measures from a financial point of view are those contained in Article 2, which refinances the fund for the universal allowance and family services for 2021 and establishes a new fund with resources to be allocated to finance the reform of the tax system. These measures are accompanied by others intended to make permanent the additional tax credit for payroll employees (the €100 bonus), to refinance the Citizenship Income, the birth allowance and measures concerning paternity leave. In addition, it increases the appropriation for the Municipal Solidarity Fund, which can be used to provide social services and childcare services.

3.3.1 The unified dependent child allowance

The newly established fund to finance tax reform measures has been allocated resources of €8 billion in 2022 and €7 billion from 2023. Of these, an annual amount of between €5 billion and €6 billion is specifically allocated to finance the unified dependent child allowance (Article 2, paragraph 1). For 2021, €3 billion are allocated to the fund for the universal allowance and family services (paragraph 6). From 2022, the tax reform fund will be financed with the increase in permanent revenues deriving from the improvement in voluntary tax compliance (paragraph 2).[93] At the same time, as from the same year the rules establishing the fund for the reduction of the tax burden were repealed (paragraph 5).

The fund for the reduction of the tax burden was established with the 2014 Stability Act[94] and was financed, without prejudice to the achievement of public finance objectives, with the following: a) the expenditure savings deriving from the spending review process, net of the portion already committed under other legislation as well as the resources to be allocated to programmes to achieve priority social equity needs and meet binding commitments; and b) the resources which, on the basis of the estimates contained in the Report on the Shadow Economy and Tax and Contribution Evasion, are expected to be collected on a permanent basis as an increase in revenue with respect to the forecasts recorded in the budget for the current year and those actually collected in the previous year as a result of actions to counter tax evasion.

With the measure in the Budget Bill, a fund financed with the increased revenues deriving from tax assessment and control activities is repealed and another is established and funded with the increase in tax revenue from voluntary compliance. The latter is an especially challenging phenomenon to estimate as it is highly specific, connected as it is with individual behaviour and of uncertain scope. Account should also be taken of the fact that the increase in permanent revenue is already included in the accounts on a current legislation basis and, therefore, their allocation to

93 The determination of the amounts to be allocated each year considers the increase in revenue attributable to the improvement in voluntary compliance, which will be indicated, for the third year preceding that for which the budget act is being prepared, in the update of the Report on the Shadow Economy and Tax and Contribution evasion attached to the EDF Update and drafted pursuant to the provisions of Legislative Decree 160 of 24 September 2015.

94 Law 147/2013, Article 1, paragraph 431.

a fund with specific purposes (earmarking) means that the same volume of resources must be recouped from other budget items in order to achieve budget balance objectives.

If the outlines of the tax reform have yet to be defined (last November a fact-finding enquiry on the reform of personal income taxation (IRPEF) was approved by the Finance Committees of both houses of Parliament[95]), the reform of household benefits, the implementation of which has been delegated to an enabling bill currently under discussion,[96] is at a more advanced stage of implementation. First, a fund has already been established with the 2020 Budget Act for this purpose,[97] with an appropriation of about €1 billion for 2021 and €1.2 billion for 2022.[98] Accordingly, in light of the provisions of the Budget Bill, the overall resources set aside to finance the reform amount to about €4 billion for 2021 and between €6.2 billion and €7.2 billion as from 2022. In addition, the enabling bill mentioned earlier has already identified a set of specific implementation criteria for the reform, regarding both the overall reorganisation of existing instruments and the methods of disbursement for the new allowance.

In particular, the enabling bill provides for the gradual unification of the various household instruments in a new universal allowance commensurate with the needs and available resources of households. The new allowance would incorporate: i) the household allowance and tax credits for dependent children (the elimination of which would still be implemented in coordination with the reform of personal income tax); ii) the allowance for households with at least three minor children; iii) the birth allowance and the birth bonus, referred to in Article 1, paragraph 353, of Law 232/2016.

The enabling legislation specifies that the unified allowance will be granted to all dependent minor children[99] of Italian citizenship or to holders of long-term residence permits.[100] For adult children with an income below the threshold to qualify as dependent, the allowance will be paid in a reduced amount up to the age of twenty-one solely for students, the unemployed looking for work or workers. Specific increases in the allowance are envisaged for households in special circumstances.[101] The per-child amount of the allowance does not vary with the number of children in the household.

The amount of the unified allowance varies depending on the equivalent economic status indicator ISEE (or its components) and it may be set at zero for high levels of the indicator. The enabling legislation specifies that the possible disincentive effects for “second earners” of household income must be taken into account in the calculation of the benefit amount.

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[95] The enquiry would be structured as a series of hearings of institutional representatives and experts and should be completed by 30 June 2021.

[96] The enabling bill (AS. 1892) was approved by the Chamber of Deputies on 21 July 2020 (AC. 687). After being sent to the Senate, it is currently being examined by the Labour and Social Security Committee.

[97] Article 1, paragraph 339 of Law 160 of 27 December 2019.

[98] The same fund is used to finance the birth allowance, which, however, will be incorporated into the new unified allowance.

[99] The income ceiling below which a child can be considered dependent is currently equal to €4,000 for those under age 24 and €2,840.51 for other children. The income considered also includes income not subject to personal income tax, such as for example those subject to separate taxation and self-employment income subject to flat tax.

[100] Beneficiaries must also pay income taxes in Italy, be resident and domiciled with the dependent children in Italy for the duration of the benefits and to be or have been resident in Italy for at least two years, not necessarily consecutive, or to have an open-ended employment contract or a fixed-term employment contract with a duration of at least two years.

[101] The amount is increased by at least 30 per cent and no more than 50 per cent, respectively, for each child with disabilities depending on the severity of the disability and for mothers under the age of 21.

A portion of the unified allowance shall not be included in the income considered for the purpose of calculating means-tested social benefits. This is intended to limit the penalty for allowance recipients associated with a consequent reduction of other means-based benefits.

For households receiving the Citizenship Income, the determination of the allowance will take account of the share of Citizenship Income benefits attributable to minors in the household. The enabling bill does not clarify the ways in which the amount of the unified allowance shall vary in relation to benefits under the Citizenship Income programme but it nevertheless appears to indicate that the latter (in whole or in part) can be reduced by the amount of the unified allowance.

The enabling bill does not specify, however, the specific criteria for disbursement of the allowance, both as regards its amount and the relationship with the ISEE (which is also not specifically identified), and it is therefore difficult to assess both the congruity of the appropriations with respect to the costs and the distributive effects of the new measure.

At the hearing of the PBO before the Social Affairs Committee of the Chamber of Deputies in October 2019,[102] a framework for the financial compatibility of the reform was outlined in relation to various types of allowance and the related impact on households was investigated. In response to a request for further information from the Committee,[103] simulations of various scenarios were conducted, differentiated by the level of the basic allowance and the progression with which the allowance decreases as the ISEE increases.

The analysis showed that the greatest benefits are concentrated among persons with low incomes and zero tax liability who under the current system do not benefit from the personal income tax credits for dependent children and self-employed workers (who under the current system are not eligible for allowances for dependent children, which are reserved for households in which income from employment represents at least 70 per cent of the couple's income). The average net benefit (the balance between the new allowance and the measures that would be abolished) would be around €1 thousand per household. However, it was noted that for a non-negligible number of households current benefits could be greater than those available under the new unified allowance. This circumstance is most likely to occur for households with adult children, who would receive a reduced unified allowance, but may also involve other households that, due to differences in the calculation mechanisms for the unified allowance and those adopted by existing instruments (tax credits are based on individual income, household allowances consider the couple's income, while the unified allowance will be based on the ISEE), could be penalised by the new criteria.

Finally, note that the abolition of grants for household allowances charged to employers, amounting to €1.9 billion, will have to be included in the financial provisions for implementing the enabling legislation.

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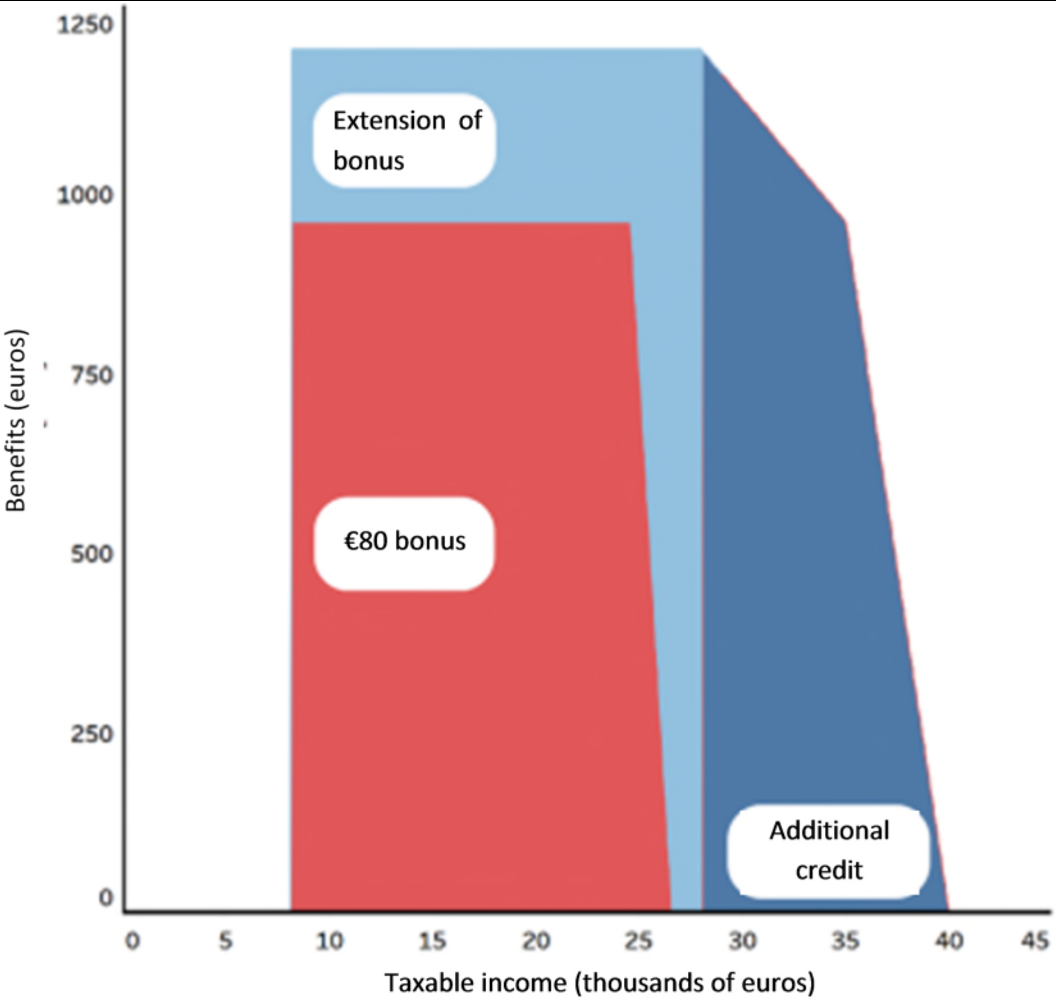
[102] See l'Audizione del Consigliere dell'UPB, Alberto Zanardi, nell'ambito dell'esame della proposta di legge recante "Delega al Governo per riordinare e potenziare le misure a sostegno dei figli a carico attraverso l'assegno unico e la dote unica per i servizi" – Social Affairs Committee of the Chamber of Deputies, 16 October.

[103] See Risposta del Presidente dell'Ufficio parlamentare di bilancio Giuseppe Pisauro alla richiesta di approfondimenti.

3.3.2 Other measures

Additional personal income tax credit for payroll employees. – Article 3 provides for the refinancing of the additional tax credit for payroll employment introduced with Decree Law 3/2020. This instrument was divided into two separate measures: a monetary transfer that replaced and expanded the €80 bonus – raising it to a constant €100 per month up to €28,000 of income[104] – and an additional tax credit – equal to €100 per month at €28,000 of income and decreasing to zero at €40,000 (Figure 3.3). The new descending profile of the bonus is intended to reduce the very high marginal rates associated with the original €80 bonus, which amounted to about 80 per cent in the income bracket between €24,600 and €26,600, in which the amount of the bonus decreased rapidly. With the

Figure 3.3 – The additional tax credit for payroll employment refinanced with the Budget Bill



[104] The €80 bonus was paid in full up to €24,600 of income, before decreasing rapidly as income increased, reaching zero at an income of €26,600 euro. Each extra euro earned between €24,600 and €26,600 reduced the bonus by about 48 cents.

introduction of the additional tax credit, the marginal tax rate falls by about 20 points, reaching 61 per cent between €28,000 and €40,000, but it affects a broader segment of the income distribution covering a larger number of taxpayers (2.9 million compared with about 1 million).

Unlike the increase in the bonus, which was immediately considered permanent, the additional tax credit was financed with Decree Law 3/2020 for the second half of 2020 only. The Technical Report estimates in 3.3 billion the annual cost of the additional credit. The measure is financed in part by reducing the fund for the reduction of the tax burden on payroll employees in the amount of €1.15 billion in 2021 and about €1.4 billion as from 2022.

Increase in the funding of the Citizenship Income. – Article 68 of the Budget Bill increases the funding of the Citizenship Income/Pension programme by about €0.2 billion for 2021 and about €0.5 billion as from 2022, bringing total appropriations to about €7.5 billion in 2021 and €7.7 billion in subsequent years.

In the first year of the Citizenship Income, expenditure turned out to be significantly lower than the appropriations (approximately €3.8 billion, compared with appropriations of €5.8 billion), mainly due to the slow roll-out of the programme in 2019. In 2020, the economic crisis connected with the pandemic caused a significant increase in disbursements and consequently in expenditure. Between February and September, the number of beneficiaries increased by about 300,000 (+30 per cent) and monthly expenditure went from €500 million to about €670 million.[105] If expenditure remained at the September level in the last quarter of 2020, the total cost for 2020 would reach €7.3 billion, equal to the appropriations provided for in Decree Law 4/2019 for that year. The threshold could be exceeded if recourse to the Citizenship Income programme were to increase in conjunction with the deterioration in economic conditions associated with the second wave of the pandemic. The allocation for 2021, including the increase set out in the Budget Bill for the following years, corresponds to an average monthly expenditure of approximately €630 million (about €640 million in subsequent years), about 6 per cent less than expenditure in September. The scale of the appropriations therefore seems to incorporate the forecast for a slight reduction in recourse to the programme next year.

3.3.3 Local government finances and policies for social services and households

As regards the impact of local government finance on policies for social services and households, the Budget Bill (Article 147) increases appropriations for the Municipal Solidarity Fund (MSF). The fund is the main instrument for the equalisation of financial resources among municipalities and seeks to ensure that all entities can perform their basic functions regardless of their fiscal capacity. The increase in the overall resources of

[105] See INPS, Report trimestrale Rei, RdC, REM, April 2019-September 2020.

the MSF is partially offset by the repeal of the refinancing of the fund introduced with last year's Budget Act.

Under the equalisation system, each entity receives the funds necessary to fully cover the gap between the standard funding requirement and the fiscal capacity associated with the basic functions. Fiscal capacity is estimated in such a way as to exclude the fiscal effort of the individual entities from revenue, while the standard funding requirement is defined, where possible, as the product of a quantity of services compliant with essential service levels and the standard unit cost of the services themselves. In practice, however, the essential service levels have not yet been defined. For the moment, therefore, standard funding needs have been defined using alternative methods that, for basic user-requested services, have mainly made reference to the service levels actually provided, bringing the definition of the funding needs of entities closer to a historical expenditure criterion. In addition, the 2019 Budget Act postponed from 2021 to 2030 the time when MSF transfers should amount to 100 per cent of the difference between standard funding needs and fiscal capacity associated with the basic functions, with gradual convergence over the period. For 2020, for example, the equalisation target (which had been at 50 per cent for a number of years) is set at 55 per cent, with a linear increase over the next decade (5 percentage points per year). As regards funding of the MSF, municipalities channel a share of local property tax (IMU) revenue to the fund (the horizontal component of the fund's financing), while another portion of resources should be provided as transfers from higher levels of government (the vertical component) and, mainly, the State budget. However, since the establishment of the MSF (with the 2014 Stability Act, after an experimental phase that began in 2011) the vertical component has gradually decreased in reflection of local authorities' contribution to the consolidation of the public finances. The 2020 Budget Act had refinanced the MSF, bringing the total appropriations of the fund for 2020 to about €6.5 billion, with further increases planned for the following years (€7.1 billion starting from 2024).

The changes to the MSF concern two distinct areas. In the first, the Budget Bill allocates increasing additional resources (rising from €216 million in 2021 to over €650 million in 2030) to finance and develop municipal social services delivered individually or in partnership by municipalities in ordinary statute regions (OSRs). Resources will be allocated to individual entities on the basis of the allocation coefficient of the standard funding requirement for the "social services" function, approved by the technical commission. The commission will also provide support for the definition of the objectives to be achieved with these resources – in terms of service provision – and the methods for monitoring performance, which will be governed by a Prime Ministerial Decree.

The second change concerns the allocation of the additional resources to be used, from 2022, to increase the availability of places in the childcare facilities of municipalities in the OSRs and in Sicily and Sardinia. The increase in resources allocated to the MSF for this purpose amounts to €100 million in the first year, rising by €50 million a year to reach €300 million annually starting from 2026. The allocation criterion provides that the funds will only go to municipalities in which availability falls below the essential service level for this service. Pending definition of the latter, only municipalities in which the ratio between available places (calculated as full-time equivalent places) and residents aged between 0 and 2 years is lower than the average of municipalities with the same total population will be eligible for these transfers.

This allocation criterion is an important change. As mentioned, in the absence of essential service levels, standard funding needs were mostly determined by basing service levels on the level of services actually delivered in the past, resulting in the persistence of the large gaps found at the territorial level.

The latest Istat data (for 2018)[106] indicate a slight increase in early childhood education services (childcare facilities) provided by municipalities directly or indirectly (i.e. through private structures), but continue to highlight the considerable variability of availability for potential users (population aged between 0 and 2 years), which in the Centre-North reaches almost 20 per cent, while in the South and in the Islands it is just above 5 per cent, with a much greater dispersion at the level of individual municipalities.

The weak equalisation impact of the current MSF allocation criteria has fuelled the debate about the need to adopt different methods for calculating standard funding needs. With specific regard to the supply of early childhood education services, in July 2019 the technical commission for standard funding needs approved a new methodology for defining those needs, introducing minimum thresholds for both the volume of services offered and the cost of the service provided.[107] Although not particularly significant from a financial point of view, these changes (introduced in view of the allocation of resources for 2020) represented a noteworthy corrective from the point of view of the underlying principle of allocation. For example, prior to this change, municipalities that did not offer a service were allocated a zero requirement. The provision included in the Budget Bill, which is targeted solely at entities whose level of service provision is lower than the average for municipalities of similar size, marks a further step in the direction of improving the redistributive capacity of the MSF.

[106] Istat (2020), "Offerta di asili nido e servizi integrativi per la prima infanzia. Anno educativo 2018/2019".

[107] For more on this issue, see: UPB (2019), "La perequazione delle funzioni fondamentali dei Comuni: il caso degli asili nido", Focus Paper no. 7.

3.4 *Measures for public employment*

The Budget Bill contains a series of measures impacting public employment, some of which continue in the direction established with measures introduced in previous budgets, notably 2018 and 2019 (Table 3.5).

Previous budget packages had included measures authorising the hiring of personnel despite restrictions on turnover provided for in current legislation (or to expand staffing levels) in order to eliminate shortfalls produced by the cost containment measures implemented since 2009 and to meet extraordinary needs.

More specifically, the 2019 Budget Act had provided for the expansion of the fund for the hiring of permanent staff over and above the hiring authority available under current legislation, but in compliance with the existing staffing levels. Established with the 2017 Budget Act with an

Table 3.5 – Impact on net borrowing of main public employment measures in recent Budget Acts (1)
(millions of euros)

2018 Budget Act	**2018**	**2019**	**2020**
Additional resources for renewal of 2016-2018 state-sector bargaining agreement (includes sterilisation of impact of €80 bonus)	1,861	1,861	1,861
Increase of fund to strengthen school autonomy - increase in staffing levels	50	150	150
Increase in resources for security-defence sector	50	100	150
Extraordinary resources for additional hiring and other measures	355	624	775
Total	*2,316*	*2,735*	*2,936*
2019 Budget Act	**2019**	**2020**	**2021**
Renewal of 2019-2021 state-sector bargaining agreement	650	925	1,275
Increase in fund for hiring personnel	131	328	434
Hiring of school support staff		280	280
Reorganisation of law enforcement and armed forces careers		100	100
Deferral of public hiring	-198		
Other measures	545	755	981
Total	*1,128*	*2,388*	*3,070*
2020 Budget Act	**2020**	**2021**	**2022**
Additional resources for renewal of 2019-2021 state-sector bargaining agreement	325	1,600	1,600
Other measures	336	444	505
Total	*661*	*2,044*	*2,105*
2021 Budget Bill	**2021**	**2022**	**2023**
Increase in national healthcare standard funding requirement - resources for bargaining agreement of healthcare executives with exclusive employment relationship	500	500	500
Additional resources for renewal of 2019-2021 state-sector bargaining agreement	400	400	400
Increase in national healthcare standard funding requirement - specific allowance for nurses	335	335	335
Increase of fund to strengthen school independence - increase in staffing levels	60	313	687
Fund for hiring permanent personnel in addition to established hiring authority	36	167	298
New hiring and increase in resources for security-defence sector	179	188	108
Other measures	273	428	393
Total	*1,784*	*2,330*	*2,721*

Source: based on data from the summary of financial effects attached to each legislative measure.
(1) The quantities indicated are gross of increases in tax and contribution revenue associated with the measures (contributions charged to employers).

appropriation of about €45 million per year, the fund was refinanced with €131 million for 2019, €328 million for 2020 and €434 million as from 2021.

At the same time, the limits on staff turnover – introduced beginning in 2006 – have been revised in recent years with various legislative measures.[108] More specifically, Law 56/2019 established that beginning in 2019 state-sector entities, including autonomous bodies, agencies and non-economic public entities, could hire permanent staff up to a limit determined by the expenditure equal to 100 per cent of that in respect of permanent staff terminated in the previous year.

Note that the downward trend in employment in public entities, which began in 2009, had still not been reversed in 2018 (Table 3.6). In fact, excluding certain sectors for which a uniform comparison over time is not possible,[109] in 2018 the number of employees had decreased by about 6.5 per cent compared with 2009, with the decline temporarily interrupted only in 2017.

The decrease involved almost all sectors, but to differing extents: non-economic public entities (including social security institutions) saw their staff fall by 30.6 per cent between 2009 and 2018, while university professors declined by 25 per cent and the personnel of ordinary statute regions (OSRs) and local authorities contracted sharply (-19.5 per cent), as well as personnel in the aggregate composed of ministries, tax agencies and the Presidency of the Council of Ministers (-17.3 per cent). At the same time, the average age of employees has gradually increased over time, rising from 43.5 years in 2001 to 47 in 2009 and 51 in 2018.[110]

The Budget Bill contains new measures in response to these trends, of which the main provisions are described here. First, Article 158 of the Budget Bill provides for the establishment of a new fund to be allocated, which will be used to finance the hiring of permanent staff at central government entities beyond the hiring authority provided for in current legislation. The resources appropriated for this purpose amount to €36 million in 2021, €167 million in 2022 and €298 million in 2023. Increasing annual appropriations are envisaged until 2032, while as from 2033 these additional resources will be equal to €315 million.

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[108] For a survey, see L. Rizzica (2020), "*The Italian public sector workforce: recent evolution in the light of the rules on turnover",* Banca d'Italia*,* Occasional Papers no. 560/2020, available at: https://www.bancaditalia.it/pubblicazioni/qef/2020-0560/QEF_560_20.pdf?language_id=1.

[109] The segments "Special statute regions and autonomous provinces" and "Entities pursuant to Articles 60 paragraph 3, and 70, paragraph 4, of Legislative Decree 165/2001 as amended and other Istat S13 entities" show anomalous developments, with positive growth rates between 2009 and 2018. It should be borne in mind that the Annual Account of the State General Accountant Department included employees of the Region of Sicily (about 20,000 employees) for the first time in 2011, while employees of the other entities on Istat's S13 list were included for the first time in 2014 (about 38,000 employees).

[110] Aran (2020), "Statistiche e pubblicazioni", available at: https://www.aranagenzia.it/attachments/article/5153/Occupati%20per%20et%C3%A0_Anno%202018.pdf.

Table 3.6 – Number of personnel at 31 December each year in the Annual Account of the State General Accountant Department

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	% change 2009-2018
Schools, universities, research entities and art academies (1)	**1,168,950**	**1,135,993**	**1,106,239**	**1,102,572**	**1,117,266**	**1,128,888**	**1,173,666**	**1,193,709**	**1,226,339**	**1,224,963**	**0.05**
National Health Service	**733,613**	**728,192**	**717,229**	**705,300**	**702,240**	**697,572**	**690,607**	**683,909**	**686,169**	**686,850**	**-6.4**
Law enforcement, armed forces, firefighters	560,939	553,870	553,628	542,236	537,080	536,573	528,130	522,287	517,902	517,389	**-7.8**
Regions and local authorities	578,556	569,529	551,579	535,545	527,627	522,207	503,451	493,736	480,692	465,720	**-19.5**
Ministries, tax agencies and Presidency Council of Ministers	238,768	232,440	226,187	220,569	218,226	214,228	208,167	204,961	203,151	197,357	**-17.3**
Non-economic public entities	56,975	55,361	52,433	51,312	48,985	46,573	43,747	42,801	40,944	39,535	**-30.6**
Judiciary, diplomats, prefectures and penitentiaries	13,276	12,939	12,808	12,916	12,968	13,102	12,719	12,791	12,884	13,035	**-1.8**
University professors and researchers	58,832	55,541	54,198	52,710	51,245	49,566	47,966	46,474	45,122	44,095	**-25.0**
Subtotal	**3,409,909**	**3,343,865**	**3,274,301**	**3,223,160**	**3,215,637**	**3,208,709**	**3,208,453**	**3,200,668**	**3,213,203**	**3,188,944**	**-6.5**
Special statute regions and autonomous provinces (2)	84,349	84,918	106,982	105,688	105,689	105,795	103,046	102,667	100,942	100,900	**19.6**
Entities pursuant to Articles 60 paragraph 3, and 70, paragraph 4, of Legislative Decree 165/200 as amended and other Istat S13 entities (3) (4)	8,367	8,387	13,981	14,358	14,498	51,967	52,264	53,894	53,626	52,972	**533.1**
Total	**3,502,624**	**3,437,171**	**3,395,264**	**3,343,206**	**3,335,823**	**3,366,470**	**3,363,763**	**3,357,229**	**3,367,771**	**3,342,816**	**-4.6**

Source: based on data from Aran and Annual Account of the Office of the State General Accountant Department of 2018.
(1) Includes ASI and ENEA. – (2) The positive (and anomalous) value of the rate of change in 2009-2018 for this aggregate is attributable to the inclusion of personnel working for the Region of Sicily (about 20,000 employees) in the survey as from 2011. – (3) Includes CNEL, ENAC and Unioncamere. Until 2015 also includes AGID, which since 2016 has been included in the Ministries category. In 2012, the survey included for the first time the Communications Authority and the Electricity and Gas Authority. The positive (and anomalous) value of the rate of change in 2009-2018 for this aggregate is attributable to the inclusion of personnel working for other entities in Istat's S13 list (more than 34,000 employees) in the survey as from 2014.

The new fund will finance the hiring of 330 ordinary magistrates (with the retirement of 143 magistrates in 2020), 3,000 non-executive administrative staff to be placed in the administrative positions in the judiciary, 200 personnel in the central units of the penitentiary service, and 80 personnel in the central units of the Department for Juvenile Justice.

The shortage of administrative staff is considered one of the causes of the inefficiency of the Italian judicial system.[111] According to the annual report of the Council of Europe on the judicial systems

[111] Parliamentary Budget Office (2016), "L'efficienza della giustizia civile e la performance economica", Focus Paper no. 5.

of member countries, in Italy in 2018 the number of administrative staff working in entities of the judicial system was equal to 51.2 units per 100,000 inhabitants, compared with a median of 75.8 per 100,000 inhabitants in the countries of the Council of Europe.[112]

In addition, the fund can also be used for the following hiring: 140 employees in the 2021-2022 period by the Ministry of Agricultural, Food and Forestry Policies; up to 750 employees by the National Fire Service, divided into a maximum of 250 units in each of the years in the 2021-2023 period; 250 by from the Ministry of the Interior in 2021; 45 non-general executives and 135 non-management personnel the Ministry of Health, starting from 2021; 28 units by the Ministry of Labour and Social Policies in 2021-2022.

The fund can also be drawn by the MEF to hire 550 non-management personnel for the local state accounting offices (450) and tax commissions (100 units). The MEF is also authorised to hire 20 non-management personnel in 2021-2023 for activities related to the implementation of the NGEU plan.

Finally, the fund will also finance an expansion of the personnel of art, music and dance academies), with 1,550 employees including teachers and administrative staff. The Technical Report underscores the need to review the staffing levels of these institutions, which date back to the 1990s, when there were about 76,000 students enrolled in these institutions, a number that has since increased by 50 per cent (see also section 3.7.2).

Other provisions of the Budget Bill provide for further hiring, with appropriations not included in the fund established with Article 158. In particular, Article 31 authorises government entities operating in the South to hire temporary staff with competitive examinations in order to strengthen their administrative capacity in the management and use of EU and national cohesion policy funds for the 2014-2020 and 2021-27 programming cycles.[113] These entities will be authorised to use fixed-term contracts not exceeding thirty-six months to hire up to a maximum of 2,800 employees with a maximum annual expenditure of €126 million for the 2021-2023 period. The same article also authorises government entities to initiate competitive procedures for the permanent hiring of non-management staff with skills consistent with the goal of ensuring the definition and implementation of the measures envisaged in EU and national cohesion policy, in compliance with the three-year planning of needs and an overall limit of 50 per cent of the financial resources available under current legislation governing permanent hiring.

A further measures is provided for in Article 161, which authorises the Ministry of Justice to hire up to 1,080 non-management administrative staff on a fixed-term basis, with contracts lasting a maximum of 12 months, in the 2021-2022 period, to be employed in the elimination of the backlog of procedures for the execution of criminal convictions. The resources appropriated amount to €8 million in 2021 and €33 million in 2022.

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[112] CEPEJ (2020), “European judicial systems. CEPEJ Evaluation Report 2020”.

[113] As the resources needed for this hiring are charged to the budget of local government entities, they are not included in the State budget.

Article 162 authorises an increase of €52 million annually, starting from 2022, in the resources for transforming fixed-term jobs into permanent positions at the special offices for reconstruction and local authorities in the territories affected by the earthquakes of 2009 (Abruzzo), 2012 (Emilia-Romagna, Lombardy and Veneto) and 2016 (Central Italy).

In addition, the Budget Bill also authorises the permanent hiring of 189 doctors at INPS in 2021-2022 to perform the medical-legal functions of the social security institute (Article 183), with expenditure of €7 million in 2021 and €26 million in the following two years.

Another important measure involves the security sector. Between 2009 and 2018, the number of law enforcement personnel decreased from about 329,000 to 306,000 (-7 per cent).[114] The 2018 Budget Act had already launched a five-year plan to compensate for this shortfall in police personnel, providing for the extraordinary hiring of about 7,400 new staff in 2018-2022.[115]

The 2019 Budget Act appropriated about €350 million for 2019-2021 and €360 million a year thereafter (largely recouped with a reduction in other expenditure) to hire 6,500 members of the State Police, the Carabinieri, the Finance Police and the Penitentiary Police.[116]

Article 166 of the Budget Bill provides for the extraordinary recruitment, within the limit of authorised staffing levels, of a maximum of 4,535 junior law enforcement personnel. The plan covers five years, starting in 2021, for the Finance Police and the Penitentiary Police and three years, from 2023, for the State Police and the Carabinieri. The plan breaks down as follows: 800 in 2021, 500 in 2022, 1,160 in 2023-2024 and 915 in 2025. The Technical Report notes that the extraordinary hiring plan is aimed at reducing persistent and prospective vacancies among junior law enforcement personnel. The resources allocated amounted to €3.9 million for 2021, €32.3 million for 2022 and €58.4 million for 2023. A new fund will also be established, with an annual appropriation of €50 million for each year of the 2021-2023 period, to pay for the activities of armed forces, law enforcement and national fire service personnel performed away from their ordinary base in response to the COVID-19 health emergency (Article 167).

Other measures regarding the security sector include an extension of the "Safe Roads" programme (surveillance of sensitive sites and targets) until 2022, with expenditure connected with the use of armed forces personnel (mainly the Army) and a small contingent of police personnel, which work with the military to control the territory, amounting to €124.1 million in 2021 and €105.2 million in 2022 (Article 180, paragraph 2). In addition, the increase in overtime work connected with duties assigned to military

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[114] Aran (2020), "Statistiche e pubblicazioni", available at: https://www.aranagenzia.it/attachments/article/5065/Occupati%20per%20tipologia%20rapporto%20Serie%202001-2018.pdf.

[115] Parliamentary Budget Office (2017), "2018 Budgetary Policy Report", December.

[116] Parliamentary Budget Office (2019), "2019 Budgetary Policy Report", January.

personnel in response to the health emergency is funded by the Budget Bill in the amount of €1.3 million for 2021 (Article 180, paragraph 3). For more on the measures provided for in the Budget Bill regarding healthcare personnel and the additional provisions concerning educational personnel, please see sections 3.6.2 and 3.7, respectively.[117]

Finally, the Budget Bill provides for an increase of €400 million in the resources appropriated in the State budget starting from 2021 for national collective bargaining for 2019-2021 and pay increases for the remaining state personnel hired on public-law-regime contracts (magistrates in the ordinary, administrative law and accounting control courts, military personnel and State law enforcement personnel, diplomatic and prefectural career personnel, university professors). Taking account of the funds appropriated previously for 2019-2021 and the €400 million appropriated for 2021-2023, the resources charged to the State budget for contract renewals and pay rises for public-law personnel total €1.1 billion for 2019, €1.8 billion for 2020 and €3.8 billion for 2021. The resources can fund an increase in the average total remuneration of state-sector personnel of 1.3 per cent for 2019, 2.01 per cent for 2020 and 4.07 per cent from 2021, including the impact of pay increases for public-law-regime personnel without contracts.

In addition, the Technical Report estimates that the contractual increases for the non-state sector, to be determined by applying the same criteria envisaged for the state sector, will generate estimated costs of €940 million in 2019, €1.4 billion in 2020 and €2.9 billion in 2021 in the budgets of the departments and entities concerned, the funding for which will have to be found within the budgets of these entities.

[117] As for healthcare personnel, the most important measure contained in the Budget Bill is probably the extension to 2021 of the possibility for health system entities to hire extra personnel for the management of the COVID-19 emergency. However, the measure does not have an explicit impact on the public finance balances, since the regions will eventually have to finance it from the resources available to them. For further details, please see the sections indicated in the text.

3.5 *Measures concerning pensions*[118]

The Budget Bill contains only minor provisions concerning pensions, with measures that partially alleviate the difficulties facing the labour market, without changing the general structure of the pension system.

The first of these is a one-year extension of two special retirement options that at this juncture can be used either to enable retirement for those who are unwilling or unable to continue working for reasons of physical wear-and-tear or personal hardship, or those who are no longer employed due to the crisis or, on the other hand, to indirectly help create room for turnover in the workplace.[119]

More specifically, the so-called "Women's Option" (Article 60) has been extended, allowing women who by 31 December 2020 (previously the limit was 31 December 2019[120]) have at least 35 years of contributions and are aged at least 58 for payroll employees and at least 59 for the self-employed or para-employees to retire, subject to recalculation of their benefits on a contributory basis. Periodic adjustments for increases in life expectancy are not applied to the two requirements.[121] Pension benefit payments are subject to moving start-date windows, equal to 12 months for payroll employees and 18 months for the self-employed and para-employees, respectively.[122] Authorised expenditure for the new "Women's Option" amounts to €83.5 million in 2021, €267.7 million in 2022 and €466.7 million in 2023.

The "Women's Option" was introduced in 2005 (Law 243/2004, Article 1, paragraph 9), initially on an experimental basis for ten years until 31 December 2015, but has been renewed repeatedly up to this new extension. In its original version, the option permitted retirement for women who by 31 December 2015 had at least 35 years of contributions and who were aged at least 57 for payroll employees and 58 for the self-employed. Subsequent amendments have moved forward the deadline by which the eligibility requirements must be met, raising the age limit and specifying that the option can be exercised even if the pension starts after the date the requirements are satisfied (as a result of the moving start-date windows).

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[118] The section does not consider the part of Article 69 that funds the reduction from five to three years in the duration of the solidarity reduction applied to high-value pensions in compliance with Constitutional Court ruling 234/2020. Net of tax effects, estimated expenditure amounts to €94.2 million in 2011 and €89.9 million in 2022.

[119] In prolonged recessions, the lump of labour hypothesis might plausibly be correct, and measures to encourage older workers to leave the labour force could help create job opportunities for younger workers. For more on this issue see also Parliamentary Budget Office (2016), "Il dibattito sulla flessibilità pensionistica", Focus Paper no. 6.

[120] As established with the previous extension with DL 4/2019.

[121] Pursuant to Article 12 of DL 78/2010.

[122] The moving windows retain the regulations established with the Fornero pension reform of 2012.

The "*APE sociale*" early retirement programme for hardship categories has also been extended. Introduced in 2016[123] on an experimental basis, it has already been extended several times and is now scheduled to expire on 31 December 2021. It permits retirement for persons who are at least 63 years of age by that deadline, have at least 30 or 36 years of contributions (depending on the circumstances)[124] and meet the requirements for specified situations of need. For the time elapsing between the moment of retirement and meeting the statutory requirements for an old-age pension, eligible beneficiaries receive benefits in an amount equal to the value of the pension benefits calculated at that time, up to a limit of €1,500 gross a month (no cost-of-living adjustments).[125] Authorised expenditure amounts to €87.7 million in 2021, €183.9 million in 2022 and €162.8 million in 2023.

Note that the "*APE sociale*" programme is targeted at private- and public-sector payroll employees, the self-employed and para-employees, while professionals with an official professional association (and an associated first pillar category pension fund) are not eligible. Workers must fall within at least one of the following categories:[126] the involuntary unemployed, including those who had been a fixed-term contract that has since expired; workers who care for relatives and other kin up to the second degree who are not self-sufficient or are disabled; workers with a disability of at least 74 per cent; and payroll employees who have performed heavy duties in at least six of the last seven years prior to applying for the *APE sociale* or in at least seven of the last ten years.

Rounding out the pension measures is a permanent measure, although its scope is limited, at least in the immediate future. It establishes that the duration of part-time employment contracts that envisage intermittent periods of work (for example, only a few days a week or a few weeks a month) shall be considered in full for the purposes of contribution requirements.[127] This modification helps limit the adverse impact on the accrual of contribution seniority of a possible increase in part-time employment during the crisis and the period immediately following it. More generally, it is aimed at younger workers for whom prolonged interruptions or discontinuities in work, regardless of the current recession, can excessively slow the accrual of contributions and create shortfalls that would be difficult to offset over the course of their career. Authorised expenditure amounts to €28.4 million in 2021, €26.3 million in 2022 and €24.7 million in 2023.

[123] 2017 Budget Act (Law 232/2016). The main operational details are set out in Prime Ministerial Decree 88/2017 and INPS Circulars 100/2017 and 17/2019.

[124] In certain cases for women, the requirements are reduced by 12 months for each child up to a maximum of 2 years.

[125] Eligibility lapses if the requirements for the ordinary early retirement mechanism are met. The benefit can be combined with income from payroll or para-employee employment up to a limit of €8,000 per year or self-employment income of €4,800 per year. It cannot be combined with NASPI unemployment benefits or other unemployment benefits.

[126] For more detail on the characteristics of the four categories, see Article 1, paragraph 174, letters a) to d), of Law 232/2016.

[127] Contribution seniority accrued each year is calculated as the ratio of total contributions paid each year to the minimum weekly contribution.

3.6 Measures for the healthcare sector

3.6.1 Funding the National Health Service

The Budget Bill sets the financing of the National Health Service (NHS) for 2021 at €121.37 billion, an increase of just under €1 billion compared with 2020 (€120.517 billion).

On a current legislation basis, the resources for 2021, equal to €119.477 billion, would have been lower than those appropriated for 2020, which were increased several times during the year to finance measures to counter the health emergency. The budget package therefore increased total funding for 2021 by €1.893 billion, taking account of the following elements: 1) the allocation of an additional €1 billion in 2021 to bring the funding to the level of the previous year in view of the ongoing emergency;[128] 2) funding of €1.01 billion for new measures (an increase in the indemnity to secure the exclusive services of medical executives, the grant of an allowance for nurses, an increase in funding for swab testing by general practitioners and an increase in specialist training contracts); 3) the transfer of resources to finance the Italian Red Cross to the Ministry of Health, with a reduction of €117 million in the financing of the National Health System. In terms of general government net borrowing, this reduction is offset by an equivalent increase in funding of the Ministry, as well as higher revenue from the increase in contributions and other taxes as a result of the increase in personnel expenditure due to the measures adopted (€426 million).

For the years after 2021, the financing of the NHS is not yet established by law, but the increase envisaged as a contribution to the implementation of the new measures set out in the Budget Bill is indicated (allowances for doctors and nurses and specialised training), net of transfers for the Red Cross and savings of €300 million as from 2023 from the rationalisation of expenditure, which according to the Technical Report will be achieved through greater digitalisation. The additional increase of €1 billion for 2021, on the other hand, remains a one-off. The increase in resources amounts to €822.87 million for 2022, €527.07 million for the following three years and €417.87 million from 2026. The reduction in expenditure attributable to digitalisation is not linked to new, specific provisions.[129] Contributions and other taxes charged to employers in 2022 and 2023 are similar to those indicated for 2021.

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[128] Note that DL 34/2020 had appropriated the funding necessary to cover the increase in planned expenditure this year, but the refinancing indicated for 2021 and 2022 was about €1.1 billion and €0.1 billion less, respectively, than the estimated cost of the measures (see Parliamentary Budget Office (2020), "2020 Budgetary Planning Report", July; "Audizione informale del Presidente dell'UPB, Giuseppe Pisauro, sul DDL di conversione del DL 19 maggio 2020, n. 34 recante misure urgenti in materia di salute, sostegno al lavoro e all'economia, nonché di politiche sociali connesse all'emergenza epidemiologica da COVID-19 – Commissione Bilancio della Camera dei deputati").

[129] Nevertheless, the Budget Bill also provides for expenditure savings for regions, provinces, metropolitan cities and municipalities following the reorganisation of services enabled by digitalisation and greater use of flexible working arrangements.

In addition to the measures already mentioned, the main measures in the healthcare field concern: the extension of provisions to facilitate the recruitment of personnel contained in the decrees issued during the health emergency; pharmaceutical expenditures, with the establishment of a fund to finance the COVID-19 vaccine and the restructuring of expenditure ceilings; patients mobility across regions and healthcare facility construction.

3.6.2 Measures funded with an increase in resources

The measures to be implemented thanks to the refinancing of €1.01 billion are as follows.

From January 2021, the exclusive services indemnity for medical, veterinary and healthcare executives of the NHS (i.e. where they exercise their profession solely within National Health Service structures) will be increased by 27 per cent. The cost of this measure is estimated at €500 million per year. On the basis of the amounts set in the healthcare sector's national collective bargaining agreement for 2016-2018, the estimated increase would vary between €35 and €384 per month (for 13 monthly payments) depending on category (healthcare, medical or veterinary), seniority (professional experience of less than 5 years, between 5 and 15 years or more than 15 years) and duties (management of a complex facility or other positions).

The Budget Bill also provides for the payment as from 2021 of a new nursing allowance, which will become part of base remuneration. The total annual amount, indicated at €335 million, must be allocated through the healthcare sector's national collective bargaining agreement for 2019-2021, which shall determine the amount and rules governing the allowance.

The Budget Bill also continues to support the COVID-19 diagnostic system in 2021, funding the performance of rapid antigen tests by general practitioners and paediatricians (a solution provided for 2020 in Decree Law 137/2020 and governed by the national collective bargaining agreements for the sector). To this end, the Budget Bill provides for expenditure of €70 million next year,[130] which according to the Technical Report would enable the performance of about 4.6 million swab tests in the first half of 2021.

Finally, loans for specialist training contracts for doctors are increased by €105 million for 2021 and 2022 and €109.2 million for each year in the subsequent three-year period. This will fund 4,200 contracts for the new cycle, equal to that established with Decree Law 34/2020 for the previous cycle.

[130] Supplementing the €30 million already appropriated with DL 137/2020 for 2020. The resources are allotted among the regions using a specific table, including special statute regions that fund their health service independently (Sicily does so partially).

In addition to these new measures, the Budget Bill extends to 2021 a series of measures to strengthen healthcare staffing to deal with the COVID-19 emergency (Decree Law 18/2020, ratified with Law 27/2020, as amended, and Decree Law 34/2020, ratified with Law 77/2020).[131] These are mainly provisions to be activated once it is verified that it is impossible to use staff already in service or draw personnel from existing competition rankings. These provisions can also be implemented in derogation from current restrictions on personnel spending, but must be in compliance with the standard healthcare funding requirement for 2021 and the spending limits indicated for each individual region and autonomous province in a specific table, which allots the total amount of €1.1 billion. In addition, the Budget Bill extends provisions relating to the special COVID assistance units, with a spending limit of €210 million, and the possibility of retaining personnel who would have otherwise retired, with costs that the Technical Report indicates are already within the limits set under current legislation. The resources to finance these measures will be found within the funding of the NHS. In addition, any savings in resources earmarked for the staff expansion programmes that have been extended and not used in the year 2020 may be used, savings that can be found in the trend data, as highlighted by the Technical Report.

In particular, the measures for expanding personnel that can still be used throughout 2021 include 1) hiring personnel in the health professions, assistive personnel and trainees enrolled in the last two years of their school of specialisation,[132] as well as medical, veterinary and health executives, healthcare personnel and retired assistive personnel[133] on self-employment contracts and/or contract work assignments lasting no more than six months, which can be extended for non-retired personnel; 2) hiring personnel in the health professions, assistive personnel and trainees enrolled in the last two years of their course, with 1-year fixed-term contracts that cannot be renewed (extendable for trainees on 6-month contracts[134]); 3) hiring, within the accredited structures of the training network, trainees entered in the separate competitive ranking for positions as healthcare executives on fixed-term and part-time contracts[135] (with a permanent position available upon finishing their specialist training); 4) simply extending engagements referred to in points 1), 2) and 3) until the end of 2021 at the latest; and 5) retaining medical and healthcare executives, healthcare personnel and assistive personnel in service, also in derogation from retirement requirements.

Furthermore, the provisions of the Decree Law 18/2020, as ratified with Law 27/2020, and Decree Law 34/2020, as ratified with Law 77/2020, concerning the establishment and operation of special

[131] The new hires to be implemented with the Fund for the hiring of personnel established with the Budget Bill include those at the Ministry of Health, with expenditure of about €3 million for 2021 and €13 million as from 2022 (see section 3.4).

[132] To obtain these positions, it is not necessary for trainees to be entered in the separate competitive ranking for positions as healthcare executives. Universities must ensure that they can complete their training.

[133] DL 18/2020 allowed the hiring of graduates of medical school who were authorised to practice the medical profession, but the paragraph of the decree is not referred to in the Budget Bill, although the explanatory report does mention this category.

[134] These positions for trainees can be extended subject to the definition of a framework agreement on part-time specialist training, which must make provision for recovering lost training time.

[135] These can be granted even without a framework agreement on part-time specialist training.

COVID assistance units were extended to the end of 2021,[136] as were those concerning the requirement for separate treatment channels in emergency rooms.

3.6.3 Measures in the pharmaceutical field

The Budget Bill provides for the establishment of a fund for the purchase of COVID-19 vaccines and drugs for treating patients with that disease, with an appropriation of €400 million. For the purchase and distribution of drugs and vaccines, the Ministry of Health will work through the Commissioner for the implementation and coordination of measures to contain and combat the COVID-19 emergency (Decree Law 18/2020).

In addition, the Budget Bill modifies pharmaceutical expenditure ceilings, with an increase in that for direct purchases by healthcare facilities (from 6.89 to 7.55 per cent of the national healthcare funding requirement, including the 0.2 per cent for medical gases) and a reduction in that on purchases through the pharmacy system (from 7.96 to 7.3 per cent), leaving the same overall ceiling (14.85 per cent). For the future, the expenditure ceilings can be re-determined annually with the Budget Act based on market developments and the assistance requirements, within the overall ceiling, on the basis of a proposal from the Ministry of Health, after consulting the Italian Medicines Agency (AIFA), in agreement with the MEF.

It should be remembered that half of the difference between the actual expenditure and the associated ceiling is charged to the pharmaceutical supply chain (in the case of expenditure for direct purchases, from pharmaceutical companies only). The Technical Report does not quantify budgetary effects to this measure, as it is a restructuring of ceilings that does not change the overall planned expenditure ceiling. However, while the ceiling on direct distribution is systematically exceeded to a significant extent, the one for the pharmacy distribution system has been oversized for some years. Accordingly, the measures will reduce the expenditure overshoot for direct purchases of drugs and consequently decrease the amounts due from pharmaceutical companies to the NHS (the so-called pay-back mechanism), with a reduction that can be estimated at around €400 million for 2020, plus a further €70 million for the increase in the health system funding requirement decided with the Budget Bill (which is used to calculate the ceiling). These amounts will be charged to the regions. However, it should be considered that the value

[136] The goal of establishing the special COVID assistance units was to manage home care for COVID-19 patients who do not require hospitalisation, enabling general practitioners, paediatricians or continuity care doctors to provide ordinary treatment. A recent ruling by the Lazio Regional Administrative Court granted an appeal by the Lazio branch of the Italian physicians union SMI, ruling that charging general practitioners with handling the home care of COVID-19 patients conflicts with the provisions of the legislation establishing the special COVID assistance units. The Region of Lazio filed an appeal of the ruling with the Council of State, which granted it, ruling that the establishment of the special units is intended to lighten the burden on general practitioners by providing extraordinary temporary support, which does not imply a ban on house calls for physicians.

of the reimbursements, which is determined by AIFA, is the focus of significant litigation with the pharmaceutical companies, which are contesting the accounting.[137] For the past, the agreement between the companies and regional governments, implemented with Law 12/2019, ratifying Decree Law 135/2018, finally made it possible to collect payments for the years 2013-2017, albeit with a discount. However, the 2018 pay-back amounts have also been appealed. From 2019, with the entry into force of a new system essentially based on the use of electronic invoice data and on the allocation of reimbursements to companies in proportion to their market shares, rather than being based on the assignment of budgets to companies, greater agreement should be achieved between the parties regarding the data and the reimbursements to be paid. The provision included in the Budget Bill also seems to be intended to enhance agreement in order to resolve the residual litigation over 2018 and reduce resistance to the pay-back system for the future. However, the modification of ceilings for 2021 (the redetermination for 2022) remains subject to the payment by the pharmaceutical companies of the amount due for 2018 (2019) by the end of January 2021 (June 2021), which will be certified by AIFA by 10 February (10 July). The Budget Bill clarifies that payment of these amounts will be in settlement, with the consequent extinguishment of pending litigation, with each party paying its own costs, due to the termination of matter at issue.

Other provisions concern the adjustment of indemnities to those harmed by compulsory vaccinations and thalidomide, in order close the associated litigation (the cost was estimated at about €81 million from 2021 to 2023 and €10 million from 2024). A fund was also set up at the MEF (€50 million in 2021) to finance the State's contribution to the costs incurred by the regions to pay compensation to people harmed by irreversible complications caused by compulsory vaccinations, transfusions and the administration of blood products.

3.6.4 Patients mobility across regions

The Budget Bill also contains provisions concerning the determination of cash flows connected with compensation payments for patients traveling to other regions to seek treatment. This determination from 2021 will be performed as part of the allotment of the standard funding requirement, acting on a proposal of the Ministry of Health, in conjunction with the Ministry for the Economy and Finance and in agreement with the regions and the autonomous provinces, on the basis of the production data available for the previous year, taking account of the appropriateness audits notified by the individual regions and autonomous provinces. This is intended to facilitate the planning effort by the regions compared with current arrangements, in which the costs of providing healthcare to out-of-region patients are settled in the second year following the one in which the services are delivered. Furthermore, the signing of bilateral agreements

[137] See Parliamentary Budget Office (2017), "Il governo della spesa farmaceutica tra massimali e *pay-back*", Focus Paper no. 5 and Parliamentary Budget Office (2019), "2019 Budgetary Policy Report", January.

between the regions governing interregional healthcare travel (Law 208/2015), which was to be completed by the end of 2016, will represent compliance for the purposes of obtaining supplementary funding from the NHS[138] and will be submitted to the standing committee for verification of compliance with essential care standards. This committee is also responsible for developing guidelines and indicators, using data from the Health Card System where necessary, to harmonise the appropriateness audit systems of accredited providers, to prepare a national programme for the assessment and improvement of interregional care processes, to reduce “non-normal” recourse to such care and implement specific programmes for border areas.

No financial effects have been attributed to these measures, although an improvement in the appropriateness of care could generate savings.

3.6.5 Healthcare facility construction

The Budget Bill also increases resources for healthcare facility construction by €2 billion, bringing the total appropriation for the long-term programme of building renovation and technological modernisation (Law 67/1988 and subsequent refinancing) to €32 billion. Long-term funding of the programme is spread over the next 15 years, with €100 million for the first four years, €140 million for 2025-2029 and €150 million for 2030-2035. The Budget Bill provides support to the regions for healthcare construction in the amount of €800 million in 2021, €1,310 million for 2022 and €1,505 million for 2023, thanks to the increase provided for in the Budget Bill and following earlier changes on a current legislation basis.[139] In terms of general government net borrowing, expenditure will increase by €30 million in 2021, €40 million in 2022 and €70 million in 2023.

The appropriations are allotted to the regions in accordance with a table attached to the law, based on the allotment of the current 2020 healthcare funding requirement, excluding the Autonomous Provinces of Trento and Bolzano.[140] The long-term programme envisages the signing of programme agreements, and resources will be transferred in step with progress on the projects.

[138] In general, 3 per cent of the ordinary funding of the unallocated resources, net of own revenue, and 2 per cent for regions compliant in the last three years.

[139] More specifically, an increase of €343 million in the budget on a current legislation basis compared with forecasts for 2021 and a reduction of €270 million in 2021 and the same amount in 2023, following horizontal compensatory adjustments of expenditure to ensure compatibility with the payment schedule.

[140] Under the provisions of Law 191/2009 amending Law 386/89 on the coordination of the finances of the Region of Trentino-Alto Adige and the Autonomous Provinces of Trento and Bolzano with the tax reform. Recall that the 2020 Budget Act, which also refinanced the long-term programme with €2 billion, had allocated most resources to regions that had exhausted their share of the increase in resources provided for with the Budget Act for the previous year.

According to information in the 2020 Report on the coordination of the public finances issued by the Court of Auditors, at the end of 2019, 85 agreements had been signed by the regions (only one was signed in 2019, by the Region of Campania), for a total project amount of about €12.5 billion out of the €19.3 billion available,[141] of which about €10.9 billion approved for funding. Institutes for science-based care and research (IRCCS), experimental veterinary institutes (IZS) and directly-operated university-affiliated hospitals (*Policlinici universitari a gestione diretta*) had signed agreements worth €887 million, out of the €911 million available, of which €802 approved for funding. The regions that lag further behind in terms of resources associated with signed agreements as a proportion of total allocations are Molise (€18 per cent), Abruzzo (€29 per cent), Puglia, Calabria, Sicily and Sardinia (between 40 per cent and 50 per cent) and Lazio (56 per cent). As regards the next phase, the regions with the least resources for projects approved for funding compared with those envisaged under the programme agreements are Campania (31 per cent), the Autonomous Province of Bolzano (59 per cent), Lazio (73 per cent) and Piedmont (89 per cent), while the others have percentages ranging between 90 and 100 per cent.

Finally, the Budget Bill establishes a fund for infrastructural equalisation to narrow the infrastructure gap between geographical areas, including the healthcare sector (see section 3.8).

[141] CIPE Resolution no. 52/1998, net of resources allocated with CIPE Resolutions nos. 53/1998 – 65/2002 – 98/2008 – 97/2008, and CIPE Resolution no. 51/2019.

3.7 Measures for education

The provisions of the Budget Bill concerning education are divided into numerous measures, some of which of small entity.

For schools, the main measures are aimed at strengthening support for students with disabilities, including through the recruitment of new support teachers. Plans include additional hiring of administrative, technical and auxiliary staff (so called ATA staff) and kindergarten personnel. Other measures for schools include increases in various funds, including that for enhancing and expanding the educational offer and measures to equalise educational opportunity. Finally, the long-term national action plan for the promotion of the integrated education and training system has been refinanced. The resources allocated total €374.9 million in 2021, €532.6 million in 2022 and €1.01 billion in 2023.[142]

For universities, Higher Education in Art, Music and Dance (AFAM) and research institutions, the main measures provide for an expansion of financing to ensure students can attend (the right to education) and establish new funds, including a fund for National Research Programme and a fund for construction and infrastructure. The measures have an impact of €506.5 million in 2021, €473 million in 2022 and €478 million in 2023.

Overall, the measures for the education sector have an impact on net borrowing of €881.4 million in 2021, €1.0 billion in 2022 and €1.5 billion in 2023, with contributions and taxes charged to employers of €74.6 million in 2021, €223.6 million in 2022 and €401.7 million in 2023.

3.7.1 Schools

Students with disabilities. – A number of provisions are intended to improve the school system for students with disabilities. First, to ensure continuity of learning, the Budget Bill increases the number of position for support teachers (101,170 positions in the current school year, according to the Technical Report[143]), with an increase of 25,000 positions over the 2021-2023 period (5,000 in the 2021/2022 school year, 11,000 in the 2022/2023 school year and 9,000 in the 2023/2024 school year). To this end, the fund for expanding the positions for the so called "staff of school autonomy"[144] has been increased by €62.8 million for 2021, €321.3 million for 2022 and just under €700 million for 2023, with the

[142] The original Budget Bill (A.C. 2790) included procedural measures designed to accelerate school facility construction, which were subsequently eliminated as they outside the scope of the Bill.

[143] Including positions added in derogation from ordinary regulations, support teachers numbered 177,092 in the 2019/2020 school year, with 252,757 students with disabilities (216,452 in the 2015/2016 school year).

[144] Fund established with Law 232/2016 to ensure implementation of the provisions of Law 107/2015, which in order to ensure full achievement of the school autonomy process created the "staff of school autonomy" (broken down into common positions, support positions and positions to expand educational offer) to meet teaching, organisational and planning needs.

amounts gradually increasing subsequently until reaching about €1 billion by 2029.[145] This will consequently increase tax and contribution revenue by about €30 million in 2021, €150 million in 2022 and €330 million in 2023. The funding will be distributed with a decree of the Minister of Education, in agreement with the Minister for the Economy and Finance.

In addition, €10 million have been appropriated, for 2021 alone, for the mandatory training of teaching staff whose classes have students with disabilities (support teachers should be exempted, on conditions to be established, as they already have the associated skills) and €10 million allocated for 2021, 2022 and 2023 for the purchase and maintenance of teaching aids for schools serving students with disabilities and for the services necessary for their use.

Additional hiring. – Other measures concern: 1) the hiring of former community service workers employed as school support staff, filling 2,288 vacant positions, mainly through the transformation of 4,485 positions from part-time to full-time; 2) the extension, until the end of the 2020/2021 school year, of contracts with technical assistants (Decree Law 34/2020) (€14 million for 2021) and subsequently, from the 2021/2022 school year, an increase of 530 in the authorised staffing level for support personnel and one of 1,000 in hiring authorisation (including 470 vacant positions available in the statutory staffing authorisation that are not filled by permanent staff in the 2020/2021 school year), with a view to ensuring the operation of computer equipment on an ongoing basis for kindergartens and primary schools; and 3) an increase of 1,000 in overall staffing levels to enhance educational activities at the kindergarten level. For the first three years, the expenditure generated by these measures has been indicated at €91 million in 2021, €127 million in 2022 and €125 million in 2023 (an impact on contribution and tax revenue of €44 million in 2021 and just over €60 million in the following two years).

Other funding for the school system. – The resources of the fund for enhancing and expanding educational offer and for equalisation interventions (Law 440/1997) have been increased for 2021 and 2023 by €118 million and €107 million respectively (a further €18 million are allocated overall for 2024-2026). The fund is intended to pursue various objectives, including the expansion of school autonomy, raising the level of educational attainment, staff training and the implementation of equalisation measures. The increase in funding is aimed, among other things, at reducing inequalities and ensuring students the right to education, even for those without financial means. Finally, the provisions include an increase in resources for school transport.[146]

The fund for the operation of educational institutions has been increased by €8.2 million as from 2021. According to the Technical Report, this increase, which will enable the

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[145] A small portion of the increase is intended to give new teachers the annual allowance for teacher refresher education and training (€500 a year).

[146] Article 146 of the Budget Bill provides for an increase of €150 million for 2021 only.

distribution of a grant of €1,000 for every school, is intended to finance projects for digital innovation and laboratory teaching in schools through the involvement of digital promoters.[147] The resources allocated with Decree Law 34/2020 for the creation of an integrated information system to collect, systematise and perform multidimensional analysis of data to support decisions in the education sector have been increased by €12 million for 2021 only.

Services for children. – The Budget Bill refinances the national fund for the Early childhood education and care with €60 million as from 2021 (Decree Law 65/2017).[148] The fund is intended to support the long-term national action plan for the promotion of the integrated education and care system and, in particular, school building projects, part of the operating costs of educational services for infants and kindergartens and continuous in-service training of educational and teaching staff. The fund disburses resources as co-financing for regional programming. Recall that the strengthening of child-care services is also financed in the Budget Bill with an increase in the Municipal Solidarity Fund (see section 3.3.3).

3.7.2 Universities, AFAM and research institutions

The main measures envisaged for universities, AFAM and research institutions involve the expansion of funding to ensure students the right of education, the increase in funds for emergency needs, funding for research careers and the establishment of new funds for research and its infrastructure.

To promote the right to study, the fund for the ordinary financing of universities and the fund for the administration and educational activities of AFAM have been increased, respectively by €165 million and €8 million starting from 2021. The aim is to allow universities and AFAM to consolidate the intended beneficiaries of the exceptional provisions of Decree Law 34/2020, adopting measures to grant additional exemptions (total or partial) from annual all-inclusive fees.

At the same time, the State supplementary scholarship fund has been increased by €70 million a year from 2021, bringing it roughly to the level of 2020 and thus making permanent the decrease in the number of eligible students who did not receive a

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[147] Action no. 28 “A digital promoter in every school” of the national plan for digital education establishes that every school shall have a digital promoter, i.e. a teacher that, together with the school principal and the administrative manager, shall be responsible for promoting training for teachers, expanding the digital skills of students and developing innovative teaching methods.

[148] Of which €1.5 million in 2021 allocated to the Ministry of Education to activate the national information system.

scholarship enabled with the one-off measures adopted for 2020 only with the 2020 Budget Act and Decree Law 34/2020.

In view of the continuation of the COVID-19 crisis, for 2021 alone, the fund for the emergency needs of the system of universities, AFAM and research institutions has been increased by €34.5 million, while grants to legally recognized non-state universities and colleges[149] have been raised by €30 million. Furthermore, the Budget Bill explicitly states that the contribution rate for funding the retirement benefits of professors and researchers of legally recognized non-state universities is equivalent, as from 2021, to that for the staff of state universities. For 2016-2020, in order to offset the lower contributions paid by non-state universities, a transfer of €54 million from the State budget to INPS has been authorised. This will only impact the net balance to be financed, remaining neutral with respect to net borrowing (which will be affected by future retirement benefits). The difference in contribution revenue is therefore charged to the State.

An appropriation of €15 million from 2022 was made to double the spending limit for funding the careers of university researchers on an indefinite basis, which according to the estimates of the Technical Report will enable 1,034 researchers to become associate professors on a permanent basis. Further provisions are envisaged for the expansion of AFAM staff.[150] As regards research institutions, the Budget Bill provides for an increase in the ordinary fund of €65 million as from 2021, after Decree Law 34/2020 had granted extraordinary funding.

In addition, three new funds have been established for the promotion and development of the policies of the National Programme for research, construction and research infrastructure (in order to promote the structural and technological modernisation of universities and AFAM) and for the evaluation and leveraging of research projects (with a view to finance the involvement of Invitalia – the national agency for the attraction of investment and business development – in the evaluation and monitoring process). These funds total €310 million a year over the 2021-2023 period (the amounts in terms of net borrowing are €130 million in 2021, €150 million in 2022 and €155 million in 2023).

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[149] Eligible institutions must be authorised to grant legally recognised university degrees pursuant to Article 6 of Law 245 of 7 August 1990.

[150] Appropriations in the fund for hiring personnel in the budget of the Ministry for the Economy and Finance and in a specific fund established at the Ministry of Education, Universities and Research will finance additional hiring (see section 3.4).

3.8 Measures for Southern Italy

The Budget Bill contains a number of measures specifically targeted at Southern Italy that are intended, on the one hand, to incentivise businesses (such as contribution relief and tax credits for investments in new capital equipment and R&D activities) and, on the other, to narrow the infrastructure gap between the different areas of the country. According to the Technical Report, these measures total €7.4 billion in 2021, €6.4 billion in 2022 and €6.3 billion in 2023. Taking account of the funding from the use of the Development and Cohesion Fund (about €1.1 billion in both 2021 and 2022 and €3.6 billion in 2023) and the resources linked to the Next Generation EU programme (€3.5 billion in both 2021 and 2022), the increase in net resources for the South amount to €2.9 billion in 2021, €1.8 billion in 2022 and €2.7 billion in 2023 in terms of net borrowing.

Contribution relief. – The Budget Bill extends to 2029 the contribution relief introduced with the August decree for the last quarter of 2020 for employers with employees in areas of the country affected by serious socio-economic hardship,[151] adjusting its scale (Article 27).

The preferential measure introduced with Decree Law 104/2020 was valid from 1 October to 31 December 2020 and consisted of a contribution exemption in the amount of 30 per cent of the social security contributions payable by employers[152] for payroll employees[153] – including existing employees and those hired after the measure took effect – whose place of work is located in disadvantaged regions (as measured in terms of per capita GDP and the employment rate).[154] The regions involved are Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily. The benefit can be combined with other exemptions and incentives.

More specifically, the contribution relief is equal to 30 per cent of social security contributions until 31 December 2025, 20 per cent in 2026 and 2027 and 10 per cent in 2028 and 2029. For the entire period, the relief can be obtained for employees in the regions previously specified by Decree Law 104/2020 on the basis of the values of the economic parameters for 2018 (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily) regardless of any future changes.[155]

The measure joins other contribution relief measures that have been extended and expanded by the Budget Bill (see section 3.2.1) but it stands out from these by impacting

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151 For more details, see Parliamentary Budget Office (2020), "Memoria del Presidente dell'Ufficio parlamentare di bilancio sul DDL n. 1925 di conversione del DL 14 agosto 2020, n. 104 recante misure urgenti per il sostegno e il rilancio dell'economia", pages 20 et seq..

152 The exemption does not apply to INAIL contributions.

153 Agricultural and domestic work are not eligible.

154 More specifically, the regions are those that in 2018 had a per capita GDP of less than 75 per cent of the EU27 average or between 75 and 90 per cent with an employment rate lower than the national average.

155 The preferential treatment applies from 1 January to 30 June 2021 in compliance with the conditions provided for under the European Commission's instrument for temporary Support to mitigate Unemployment Risks in an Emergency. The application of preferential treatment from 1 July 2021 to 31 December 2029 is subject to authorisation by the European Commission pursuant to Article 108(3) of the Treaty on the Functioning of the European Union and in compliance with the conditions provided for in the regulations governing State aid.

all employees in the South and not just new hires or fixed-term workers hired on permanent contracts. It is therefore structured as a measure to reduce labour costs for companies operating in a specific area of the country.

The estimated cost of the preferential treatment presented in the Technical Report was determined on the basis of the total remuneration of employees for 2019 extracted from INPS databases as revalued on the basis of the macroeconomic forecasts contained in the 2020 EFD Update. The charges associated with the measure, net of induced tax effects, amount to €5.6 billion in 2021, €4.2 billion in 2022 and €4.6 billion in 2023.[156] The resources of the Next Generation EU programme will contribute €3.5 billion in 2021 and 2022 to cover the costs, while €3.5 billion will come in 2023 from the resources of the Development and Cohesion Fund for the 2021-2027 programming period.

Tax credits for investment. – The Budget Bill extends both the tax credit for investment in new capital equipment in facilities located in the regions of Southern Italy (Article 28) and the enhanced credit for research and development activities conducted by companies located in the South (Article 32). These measures are intended to incentivise investment and development in specific areas of the country as well as to support and revive the economy in the wake of the health emergency.

With regard to the tax credit for investments in new capital equipment (Table 3.7), the current mechanism, which is extended by this measure, is set out in Decree Law 243/2016, which in turn amended the 2016 Stability Act (which had introduced the preferential treatment), raising both the percentage credit (45 per cent for micro and small enterprises, 35 per cent for medium-sized enterprises and 25 per cent for large firms in Basilicata, Calabria, Campania, Puglia, Sardinia and Sicily; 30 per cent for micro and small enterprises, 20 per cent for medium-sized enterprises and 10 per cent for large firms in Abruzzo and Molise), and the ceilings on eligible expenditure for each size class (respectively €3 million, €10 million and €15 million) for investments undertaken as from March 2017.

The measure was introduced with the 2016 Stability Act and consisted of a tax credit for investments made between 2016 and 2019 equal to a percentage of the net investment,[157] differentiated according to the size of the company: 20 per cent of expenditure incurred for small and micro enterprises (fewer than 50 employees and with turnover or total balance sheet not exceeding €10 million); 15 per cent for medium-sized enterprises (between 50 and 250 employees and with turnover or total balance sheet not exceeding €50 million); 10 per cent for large firms (over 250 employees). There was also a ceiling on the total cost of subsidised goods of €1.5 million for micro and small enterprises, €5 million for medium-sized firms and €15 million for large companies.

[156] The costs continue in subsequent years, amounting to €4.8 billion in 2024 and 2025, €2.9 billion in 2026, €3.5 billion in 2027, €1.4 billion in 2028, €1.9 billion 2029, -€0.3 billion in 2030, €0.2 billion in 2031 and €0.03 billion in 2032.

[157] Essentially equal to the difference between the cost of the acquired good and the depreciation charges for existing goods of the same category.

Table 3.7 – Evolution and characteristics of the tax credit for investments in new capital equipment in Southern Italy

Subsidised investments	Firm size (1)	2016 Stability Act: Max investment *(millions)*	2016 Stability Act: Credit (2)	DL 243/2016: Max investment *(millions)*	DL 243/2016: Credit (3)	2020 Budget Act	2021 Budget Bill
Machinery, plant and equipment	Micro/small: 1) < 50 employees; 2) ≤ €10 million of turnover/total balance sheet	1,5	20%	3	45% 30% if located in Abruzzo or Molise	Extension of credit until 31 December 2020	Extension of credit until 31 December 2022
	Medium: 1) < 250 employees; 2) ≤ €50 million of turnover or €43 million total balance sheet	5	15%	10	35% 20% if located in Abruzzo or Molise		
	Large: ≥ 250 employees	15	10%	15	25% 10% if located in Abruzzo or Molise		

(1) Excludes companies in the steel, coal, naval construction, synthetic fibre, transport, energy production or financial sectors. Inactive firms or those in financial difficulty are also not eligible. − (2) Percentage of net investment. − (3) Percentage of cost of investment.

The percentage is applied directly to the cost of the investment, thus eliminating the net investment criterion. The credit can also be combined with other subsidy measures targeted at the same costs (see section 3.2.2).

The Technical Report quantifies the increase in expenditure deriving from this measure in 2021 and 2022 at €1.05 billion, financed by the Development and Cohesion Fund for the 2021-2027 programming period.

An initial assessment of the use of this measure can be made with regard to corporations. Data from IRES returns indicate that the tax credit was used by 1,374 companies in 2016, 5,700 in 2017 and 11,588 in 2018. This significant increase in beneficiary companies is attributable both to the changes introduced in the legislation – which make the credit more easily usable as from 2017 – and the fact that companies became better acquainted with the measure over time. The PBO MEDITA microsimulation model has been used to analyse the distribution of beneficiaries and the credit by sector and firm size (Table 3.8). At the sectoral level, in each year about 80 per cent of both the beneficiary companies and the benefit are in industry and services: the share of companies is high in services (about 50 per cent of the total subsidised companies), while the share of the benefit is equally divided between the two sectors (about 40 per cent of credit in each). A significant share of companies (about 15 per cent) and subsidies (12 per cent) are found in the construction sector.

As regards company size, about 90 per cent of the beneficiary companies are micro or small enterprises, and receive about 65 per cent of the credit. Small firms in particular benefit from a very significant share of the subsidy, between 40 and 50 per cent, depending on the year, while medium-large companies, which represent about 10 per

Table 3.8 – Tax credit for investments in new capital equipment in Southern Italy: beneficiary firms and benefit
(percentage)

	Beneficiaries			New beneficiaries	Credit		
	2016	2017	2018	2018	2016	2017	2018
Sector							
Agriculture	0.9	1.5	2.1	2.3	0.4	1.2	1.4
Extractive	0.6	0.6	0.4	0.2	1.9	1.3	0.9
Industry	28.4	27.5	26.6	24.8	35.9	40.3	40.7
Utilities	2.0	2.7	2.4	1.9	8.4	6.9	5.9
Construction	12.6	17.1	15.5	15.6	9.8	13.7	11.9
Services	53.9	49.4	51.6	53.5	43.2	35.7	38.1
Other services	1.6	1.3	1.5	1.6	0.5	1.0	1.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Size							
Micro	49.2	49.3	53.7	58.7	24.3	21.3	22.9
Small	41.1	40.3	36.4	33.1	48.1	42.9	42.7
Medium	7.9	9.0	8.7	7.2	18.3	26.3	25.9
Large	1.8	1.3	1.3	1.0	9.4	9.5	8.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: based on simulations performed with the PBO's MEDITA model.

cent of the number of beneficiary companies (and less than 4 per cent of all companies), receive a third of the credit. Medium-sized enterprises saw their share of the credit increase between 2016 and 2017, reflecting the increase in the percentage introduced with Decree Law 243/2016. Finally, it is interesting to note that of the companies benefitting from the credit in 2018, about 70 per cent received the subsidy for the first time: in this subset the share of beneficiaries belonging to the micro-enterprise group has increased (to about 59 per cent).

Finally, the Budget Bill (Article 32) extends until 2022 the increase in the tax credit for research and development activities of companies located in the South introduced with Article 244 of the May decree. The increased rates of the Decree Law 34/2020 are retained, while the expenditure ceiling increases to €4 million, in line with the changes in the mechanism for companies located anywhere in the country (see section 3.2.2).

As part of the measures to revive the economy, the May decree had provided for an increase in the percentage (from 12 to 45 per cent of the expenditure incurred for micro and small enterprises, to 35 per cent for medium-sized enterprises and 25 per cent for large companies) of the credit for investments in research and development made as from January 2020 in production facilities located in Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily, with the aim of further incentivising the technological modernisation advancement of production processes and investment in these areas (including COVID-19 research and development projects).

Overall, the Budget Bill increases the percentage credit for R&D (from 12 to 20 per cent) for all firms and extends the enhanced rate for the southern regions, although it leaves the increase for the latter unchanged from the rates established with current legislation.

The Technical Report estimates the increase in expenditure deriving from the retention of the enhanced rate at €52 million in 2022 and €104 million in 2023.

The fund for infrastructure equalisation. – The Budget Bill also intervenes in the area of infrastructure equalisation (Article 150), in implementation of the principle set out in Article 22 of the enabling law on fiscal federalism (Law 42/2009), with the aim of narrowing the infrastructure gap between the various areas of the country, especially in the South.

The time limit for the issue of Prime Ministerial Decrees is set at 30 June 2021. Those decrees must survey existing "health, assistance and school structures, as well as road, motorway, railway, port, airport, water, electricity and digital and gas transportation and distribution infrastructure" in order to determine its distribution and condition around the country and define standards for the minimum services delivered by the various types of infrastructure and, therefore, any shortfalls in existing infrastructure. The socio-demographic, geographical and technical criteria to be taken into account in the survey and identification of infrastructural deficits remain those indicated in the enabling law.

Within six months of the conclusion of the survey, subject to agreement at the Unified Conference, one or more Prime Ministerial Decrees will identify the infrastructure needed to make good the deficits detected, specifying the criteria to be adopted in determining priorities for the allocation of the necessary resources. These resources will be made available through a fund for infrastructural equalisation, which is established by the measure in the Budget Bill with an appropriation of €100 million for 2022, €300 million annually for 2023-2027 and €500 million annually for the following six years, for total resources of €4.6 billion over the 2022-2033 period in terms of the net balance to be financed. The impact on general government net borrowing over the horizon of the Budget Bill (2021-2023) is limited to €200 million. The measures also provide that the fund shall be allotted with a Prime Ministerial Decree on the basis of an agreement formulated at the State-Regions Conference and that the implementation of the plans shall be monitored through the Public Works Monitoring System of the Office of the State Accountant General, providing for a specific classification for all projects financed by the fund. The measure designates Invitalia as the operational support organisation for the preparation of the Prime Ministerial Decrees governing the survey phase.

The objective of the measure – a survey of the country's infrastructure resources broadly defined, followed by setting standards for identifying the necessary investments and their priority – appears in itself particularly ambitious, facing technical challenges of various types (in particular as regards the definition of standard infrastructure endowments). Moreover, the measures establishes a rather tight timeline, which will not be easy to comply with – also in consideration of the various administrative acts necessary for the implementation of the various phases and the particular conditions in which the government is currently operating.

The adequacy of the appropriations for the fund is difficult to assess in the absence of more detailed information about the theoretical and operational orientation on which the survey and definition of standards will be based. However, regardless of these quantitative issues, it would seem important to give the fund for infrastructure equalisation a more structured position compared with recent investment spending initiatives and in relation to the NRRP in order to ensure that the measure represents a framework for the various centrally managed investment programmes.

3.9 Measures to counter tax evasion and encourage the use of traceable payment instruments

Continuing the efforts of recent years, the Budget Bill contains measures to combat fraud in the field of excise duties and VAT (Articles 187 and 188). They are expected to generate revenue of €379 million in 2021 and €547 million in 2022 and 2023, which appears to be adequately conservative. Some of the details concerning the incentive measures for the use of electronic and traceable payment instruments have also been established (the receipt lottery and the cashback mechanism) and measures have been introduced to simplify the tax system, although these have no impact on the public accounts.

Combating excise duty and VAT fraud. – The first measure is intended to combat excise tax evasion and fraud in the fuel sector, strengthening the computerised system introduced with the Tax Decree (Decree Law 124/2019) for managing the storage and movement of fuels and the dematerialization of the guarantee form permitting an exemption from prepayment of VAT. The measure, which does not introduce new control mechanisms, has the desirable goal of enhancing the effectiveness of the tools for controlling operators along the entire fuel distribution and marketing chain and the automated transmission of information between operators and tax authorities. (Revenue Agency, Customs Agency and Finance Police) and improving the strategies for selecting investigation targets and controlling fraud.

The Tax Decree had already introduced various provisions to strengthen control mechanisms and counter evasion and fraud that added to the provisions to combat fraud in the fuel sector and govern electronic invoicing contained in the 2018 Budget Act (Law 205/2017). The provisions of the Budget Bill expand computerised information flows. Accordingly, the prudential estimate of the revenue impact of the measure appears reasonable.

The data given in the recent Report on the Shadow Economy and Tax and Contribution Evasion show a tax gap in excise duties on energy products in 2018 of approximately €1.5 billion, with the gap increasing except in the last year of the estimate (Table 3.9). Part of the tax gap is connected with fraud involving excise duties and VAT, which has continued to characterise the sector during its recent evolution and the consequent increase in the number of irregular operators.

The second measure, which seeks to expand the fight against VAT fraud, notably that associated with sales to false regular exporters, provides for the implementation of an automatic mechanism that prevents the issuance of letters of intent on the basis of fictitious ceilings on VAT-free purchases. The law expands information resources, in particular the data generated by electronic invoicing, and strengthens the strategies to combat VAT fraud, deploying specific risk analyses. With regard to the latter aspect, the Technical Report provides an estimate of the increase in revenue, which, although conservative, is based on results from a limited time frame only and are therefore subject to change.

Table 3.9 – Estimated tax gap for excise duties on petrol and diesel fuel
(millions of euros)

	Aggregate	2013	2014	2015	2016	2017	2018
Petrol	Actual revenue	7,722	7,477	7,407	7,210	6,965	7,027
	Tax gap	114	165	154	208	343	101
	Theoretical revenue	7,835	7,642	7,561	7,418	7,308	7,128
Diesel	Actual revenue	10,018	10,048	10,235	10,436	10,361	10,755
	Tax gap	1,055	1,142	1,276	1,403	1,735	1,390
	Theoretical revenue	11,073	11,190	11,511	11,839	12,095	12,145
Total	Actual revenue	17,740	17,525	17,642	17,646	17,326	17,782
	Tax gap	1,169	1,306	1,430	1,611	2,077	1,490
	Theoretical revenue	18,909	18,831	19,071	19,257	19,403	19,272

Source: "Relazione sull'economia non osservata e sull'evasione fiscale e contributiva – anno 2020" attached to the 2020 EFD Update.

Receipt lottery. – Established with the 2017 Budget Act (Law 232/2016, Article 1, paragraph 540), the receipt lottery has undergone several modifications and postponements. In its latest version, the Budget Bill provides for its association exclusively with payments made using traceable payment methods, making it part of the initiatives envisaged under the "Cashless Italy Plan".

Participants in the lottery use a "lottery code number",[158] instead of their taxpayer's tax ID number, to be notified to the merchant at the time of purchase. Upon payment, the merchant issues an electronic receipt that generates a virtual ticket for each euro spent. A maximum of 1,000 tickets can be issued per transaction. Prizes, which are available for both purchasers and merchants, are not paid out at the time of the transaction but during drawings held later.

Drawings and prizes are weekly, monthly and yearly. The lottery website also has a section with the drawing calendar. The current system, which still does not reflect amendments made with the Budget Bill, provides for "ordinary" prizes for consumers only and "zero-cash" prizes for both consumers and merchants. The former include: 7 weekly prizes of €5,000 each, 3 monthly prizes of €30,000 each and an annual prize of €1 million. The zero-cash prizes include: 15 weekly prizes of €25,000 each for consumers and €15 weekly prizes of €5,000 each for merchants, 10 monthly prizes of €100,000 for consumers and €10 monthly prizes of €20,000 for merchants and an annual prize of €5 million for consumers and an annual prize of €1 million for merchants. The probability of winning is therefore higher when payments are made using traceable instruments. The distinction between "ordinary" and "zero-cash" prizes is compliant with current legislation which establishes that people can participate in the receipt lottery with cash payments as well. It is likely that the prize mechanism will be changed following the approval of the Budget Act, which establishes that only payments made using traceable instruments are eligible for the lottery.

[158] As from 1 December 2020 aspiring participants can obtain their "lottery code number" on the dedicated website (https://www.lotteriadegliscontrini.gov.it/portale/), subject to registration with their tax ID number. This enables participation in the lottery while preserving taxpayer privacy.

As regards the use of public resources, the cost of the lottery including prizes and administrative expenses is €50 million,[159] although this could be offset by an increase in revenue as a result of greater voluntary compliance and a reduction in collusion to commit tax evasion (consensual arrangements in which there is an agreement between buyer and seller to not issue a receipt). In order to assess the effectiveness of the receipt lottery in improving tax compliance, it is enlightening both to analyse the impact of similar measures adopted around the world and to reflect on the specific characteristics of the Italian mechanism that could also limit its positive effects.

Reward mechanisms related to participation in a lottery similar to the Italian system have been introduced in a number of countries[160] with differentiated effects on taxpayer participation, revenue and tax evasion.

China boasts one of the first examples of a receipt lottery. The Lottery Receipt Experiment, introduced on an experimental basis in 1998 in the city of Haikou, has progressively been extended to other provinces and now includes the metropolitan areas of Beijing and Shanghai. The lottery transforms receipts issued using a device that gives each receipt a unique identification number into scratch tickets with instant cash winnings paid directly by the merchant. Using a panel for the period from 1998 to 2003 for a total of 37 districts in Beijing and Tianjin and applying a natural experiment approach, Wan (2010)[161] estimated a 17 per cent increase in sales tax revenue in the areas involved in the test. In addition, compared with neighbouring areas that did not participate in the programme, growth in sales tax revenue and total revenue was even higher, at 21.5 per cent and about 10 per cent, respectively.

In 2007 Brazil introduced a programme in the state of São Paulo (the *Nota Fiscal Paulista*) which provides monetary incentives in the form of tax credits for those who pay with electronic payment instruments as well as a receipt lottery. The latter requires taxpayers to give their tax ID numbers at the time of the transaction to merchants, who forward the transaction information to the tax authorities. To participate in the drawings, it is also necessary to register on a special portal, on which participants can also check that the amount on the receipt corresponds to the amount reported by the merchant and, in the event of a disparity, report the discrepancy, thereby creating an incentive for taxpayers

[159] The 2017 Budget Act establishing the lottery provides that the value of prizes awarded to those who use traceable payment methods shall total €45 million. In order to fund the prizes and the administrative expenses associated with managing the lottery, the Tax Decree (Decree Law 119/2018) established a fund with an appropriation of €3 million for 2020 and €6 million annually from 2021. The fund was then subsequently increased by €50 million as from 2020 with Decree Law 124/2019. Furthermore, Decree Law 104/2020 that as a consequence of the postponement of the lottery to 1 January 2021, the resources available for 2020 would be used entirely to meet the administrative and communication costs related to the receipt lottery. Finally, the Budget Bill (Article 194, paragraph 1, letter c)) establishes that the total value of the prizes is €45 million.

[160] Taiwan, Malta, People's Republic of China, Republic of Korea, Albania, Poland, Georgia, Portugal, Puerto Rico, Slovak Republic and the state of São Paulo in Brazil.

[161] Wan, J. (2010), "The incentive to declare taxes and tax revenue: the lottery receipt experiment in China", Review of Development Economics, vol. 14(3), pages 611-624.

to act as auditors. Naritomi (2019)[162] estimated – for the four years following the implementation of the *Nota Fiscal Paulista*, not just the lottery – an increase of 21 per cent in the sales of merchants and an increase in tax revenue net of rewards of 9 per cent.

In 2012 Taiwan introduced a game where a number on the back of each receipt allowed purchasers to participate in an instant scratch card lottery with prizes ranging from $5 to $200. In Romania the first receipt lottery drawing was carried out in 2015, with a prize of 1 million lei (just over €200,000) followed by monthly drawings.

The VAT Lottery introduced in Malta in 2013 holds monthly drawings and awards cash prizes equal to 100 times the value of the receipt. To participate, the receipts must be sent to the tax authorities. The drawings are public and the numbers of the winning tickets and the associated prize can be consulted on the government website.[163]

In the Slovak Republic, the receipt lottery was introduced in 2013, awarding with cash and cars as prizes. All receipts for amounts exceeding one euro give the right to participate in the weekly drawing. To participate, purchasers must enter the receipt number on a website or an app. A study by Fooken, Hemmelgarn and Herrmann (2014)[164] found that for both Malta and the Slovak Republic the introduction of the receipt lottery was followed by an increase in the number of receipts submitted for the lottery between 2007 and 2013 and a significant increase in the sales of small retailers, among whom evasion is generally more common. However, the increase in revenue attributable to the lottery was modest, as only a small percentage of the receipts involved in the lottery came from activities belonging to sectors with a high risk of evasion.[165]

In Portugal a receipt lottery (*Fatura da Sorte*) was introduced in 2014 together with other measures to counter tax evasion, such as a tax discount on purchases for which a receipt is issued. The weekly drawings give participants the chance to win €35,000 in Treasury bills.[166] To participate, purchasers need to visit a dedicated website[167] and enter the code number on the receipts. The data contained in the Portuguese government's tax evasion report[168] show that there was a 2 per cent increase in participating taxpayers in 2019 compared with 2018, a 10 per cent increase in the average number of invoices issued and

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162 Maritime, J. (2019), "Consumers as tax auditors", American Economic Review, vol. 109(9), pages 3031-3072.

163 https://mfin.gov.mt/en/Services/vat_lottery/Pages/VAT-Lottery-Results.aspx.

164 Fooken, J., Hemmelgarn, T. e B. Herrmann (2015), "Improving VAT compliance – random awards for tax compliance", Taxation Papers n. 51, Directorate General Taxation and Customs Union, European Commission.

165 Gianni, S., Guerra, A. e Mascagni G. (2020), "Buona fortuna alla lotteria degli scontrini", article published at www.lavoce.info on 2 December.

166 The prize was initially a luxury car. Currently, in addition to the weekly prizes, two special drawings are held in June and December with €50,000 Treasury bills as prizes.

167 https://faturas.portaldasfinancas.gov.pt/FatSorte/home.action.

168 Relatório de Atividades Desenvolvidas de "Combate à Fraude e Evasão Fiscais e Aduaneiras" (2019) available at
https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=%3d%3dBQAAAB%2bLCAAAAAAABAAzNDA0tgAAg8yIUwUAAAA%3d.

an 8 per cent increase in their value. However, according to an analysis by Wilks, Cruz and Sousa (2019)[169] based on a questionnaire completed by a sample of individuals, the lottery was less effective in reducing tax evasion than other mechanisms, such as refunds or tax credits and deductions linked to the issue of the receipt. Taxpayers said they were prompted to act "auditors" and request a receipt more by tax advantages or other reasons related to the management of taxes and the quality of public services than lottery prizes.

In light of the empirical evidence reported above, it appears that the effectiveness of receipt lotteries in combating tax evasion and therefore in increasing tax revenue depends on a number of factors: the simplicity of access to the lottery;[170] the very structure of the mechanism and, therefore, the timing of the game, the probability of winning and the size and frequency of the prizes; the possibility of also awarding tax advantages (in the form of tax credits or deductions);[171] the application of the mechanism only to the sectors in which tax evasion is most common, where collusion to commit tax evasion is most frequent and where the use of cash is more widespread. In general, lotteries should not use mechanisms that can discourage participation in the long term and whose application also involves sectors in which the use of electronic payment methods is already widespread in order to maximise the emergence of the tax base and revenue from voluntary compliance and thus reduce the "dead weight" component. The payout of the lottery, i.e. the mix between the value of the prize and the probability of winning, should be sufficient to discourage consumers from accepting a discount on the price that the merchant could offer in exchange for not issuing a receipt and therefore such as to discourage collusive behaviour. Finally, an instant lottery rather than one based on the drawing of prizes at fixed times could stimulate more interest, and therefore greater participation.

The cashback mechanism. – The Cashless Italy Plan also envisages a so-called cashback mechanism, which is provided for in the 2020 Budget Act (Law 160/2020, Article 1, paragraph 288). It provides for tax-free cash refunds on transactions made using electronic payment instruments. Under the provisions of the Decree of the Ministry of Economy and Finance of 28 November 2020,[172] the cashback system will take effect on January 1, 2021 and will consist of a refund of 10 per cent of the expenditure incurred up to a ceiling of €1,500 every six months, provided that a minimum of 50 transactions are carried out.[173] A super cashback of €1,500 euros every six months will also be paid to the

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[169] Wilks, D. C., Cruz, J. and P. Sousa (2019), "'Please give me an invoice', VAT evasion and the Portuguese tax lottery", International Journal of Sociology and Social Policy, vol. 39, no. 5/6, pages 412-426.

[170] The "lottery code number" assigned to each taxpayer registered on the lottery website could be more difficult to remember than their ordinary tax ID number.

[171] On 11 November 2020 the Revenue Agency established that receipts for healthcare spending would also be eligible for the lottery but only if taxpayers waived their right to the associated tax credits.

[172] The Ministerial Decree was approved by the Privacy Authority (Privacy Authority Measure no. 179 of 13 October 2020).

[173] Another experimental scheme (the Christmas extra cashback) will run from 8 to 31 December 2020, during which the 10 per cent will be paid for a minimum of 10 transactions with a maximum total value of €1,500. Information is available on the website www.cashlessitalia.it.

first 100,000 consumers with largest number of transactions. To participate in the programme and receive refunds, consumers must download and register of a specific application (APP IO) to transmit the identifying information of the traceable payment instrument that they intend to use. APP IO can only be registered if the consumer has a SPID (Public Digital Identity System) number or a digital identity card.

The 2020 Budget Act appropriated €3 billion to fund the cashback system for both 2021 and 2022. Currently, the resources amount to €1.75 billion for 2021 following the full use of the resources with the May decree (Decree Law 34/2020) and their subsequent partial reinstatement with the August decree (Decree Law 104/2020).

The Budget Bill eliminated the possibility of allocating any increase in revenue associated with the emergence of tax base as a result of the mechanism to the fund in order to finance the refunds and costs associated with the implementation of the cashback scheme (Article 194, paragraph 3, letter b)). The explanatory report accompanying the budget package explains that the repeal of this option is consistent with the establishment of the fund for tax reform (Article 2), to which any increase in revenue of a permanent nature deriving from an improvement in voluntary compliance will be allocated. Note that these provisions of Article 194 are not consistent with the provisions of the Decree of the Ministry for the Economy and Finance of 28 November implementing the cashback mechanism, which establishes that the resources available for the payment of refunds can be supplemented with any increase in revenue deriving from the emergence of the tax base connected with the application of the programme (Article 11, paragraph 5).

As with the receipt lottery, the empirical evidence relating to similar experiences with cashback mechanisms at the international level can help shine a light on the factors that can enhance its effectiveness in combating tax evasion, especially in cases of collusion between consumers and merchants.

In Portugal and Brazil, incentives to ask for a receipt, regardless of the payment method used, have been introduced as part of a broader strategy to combat tax evasion. In Portugal, in addition to the Fatura da Sorte, a VAT discount has been introduced – which can be used as a tax credit to set off against personal income tax – for purchases made, not necessarily with traceable payment instruments, in sectors where cash transactions are more common. The reward is granted if at the time of purchase the taxpayer provides his tax ID number to the merchant. Although there are no studies on the effect of this measure, VAT revenue has increased more in the sectors affected by the mechanism compared with other sectors that are not involved.[174] It has also been found that this measure, in providing tax credits rather than cash refunds, provides a greater incentive than other mechanisms such as the lottery for taxpayers to act as an auditor and ask for a receipt.[175] The state of São Paulo in Brazil, as part of the *Nota Fiscal Paulista* program, also grants a VAT discount to all those who provide their tax ID number at the time a receipt is issued, regardless of the payment means used. As in Portugal, however, the tax benefit in the Brazilian system is not connected with the use of electronic payment

[174] Awasthi, R. and M. Engelschalk (2018), *op.cit*..

[175] Wilks, D. C., Cruz, J. and P. Sousa (2019), *op. cit.*.

instruments but rather with the issue of a receipt, and in this sense, they are not strictly comparable to the Italian cashless plan.[176]

Programmes that instead focus on incentives for the use of traceable payment methods in business-to-consumer transactions, more closely resembling those in the Cashless Italy Plan, have been introduced in Argentina, Colombia, Japan and South Korea.

During the 2000s, Argentina introduced a discount on VAT paid on purchases below a certain value, with the percentage discount differing depending on the electronic payment instrument used.[177] Similarly, Colombia introduced a VAT discount that was subsequently abolished in conjunction with the approval of a tax reform, while in Japan the discount was granted on cashless payments to avoid the consequences of an increase in the consumption tax on the volume of sales.[178]

In South Korea, the Tax Incentive for Electronically Traceable Payments (TIEP) system was introduced in 1999. It grants taxpayers deductions of variable percentage size from earned income for all electronic payments above a minimum threshold and below a maximum ceiling.[179] An analysis by Sung, Awasthi and Lee (2017)[180] of the impact of the TIEP found an increase in the share of business income earners paying income taxes and a positive impact on tax revenue net of the tax benefits granted under the programme amounting to $1.3 billion in 2014 with regard to personal income tax, without considering the impact on VAT revenue and corporate income tax. Positive effects also included an improvement in the distribution of income and a reduction in inequality indices as well as an increase the use of electronic payment methods. The reasons for the effectiveness of

[176] However, as previously noted, Naritomi (2019), analysing the effects of the *Nota Fiscal Paulista* programme as a whole, found an increase in net tax revenue generated by the introduction of incentives. Among the reasons for the success of the package of measures is the simplicity of the instruments: to obtain the tax benefits all taxpayers have to do is provide merchants with their tax ID number. The latter are then responsible for reporting transaction information to the tax authorities.

[177] The discount was granted for purchases with a value of less than ARS 1,000 and the VAT discounts were 5 per cent for purchases with debit cards and 3 per cent with credit cards. The Argentine government then introduced an additional 2 per cent discount for fuel purchases. These benefits were subsequently eliminated (the one for credit card purchases in 2009 and the one for debit cards in 2017) because they benefited the relatively wealthier segment of the population. See Awasthi, R. and M. Engelschalk (2018), "Taxation and the shadow economy: how the tax system can stimulate and enforce the formalization of business activities", World Bank, Policy Research Working Paper n. 8391.

[178] World Bank (2020), "Electronic Payments Acceptance Incentives. Literature Review and Country Examples", Financial Inclusion Global Initiative, The World Bank Group, April.

[179] In 2013, 15 per cent of purchases made with credit cards and 30 per cent of those made with debit cards, prepaid cards and cash with an electronic receipt were deductible from income. The deduction was allowed for the part of total expenditure exceeding a minimum threshold proportional to the taxable earned income up to a maximum equal to the lower between a fixed sum and a portion of taxable earned income.

[180] Sung, M. J., Awasthi, R. and H. C. Lee (2017), "Can tax incentives for electronic payments curtail the shadow economy? Korea's attempt to reduce underreporting in retail businesses", The Korean Journal of Policy Studies, vol. 32, no. 2, pages 85-134.

the programme in terms of increased revenue are mainly attributable to the simplicity of the mechanism, which enables taxpayers to obtain tax benefits relatively quickly.[181]

The South Korean experience suggests that simplicity in the implementation of the benefit programmes for taxpayers combined with the speed of disbursing discounts and a gradual decline in the costs borne by merchants in the form of fees on electronic payments charged by the issuers of debit and credit cards represent crucial factors for the effectiveness of such programmes.

General considerations on the receipt lottery and the cashback programme. – The comparison with the experience gained in other countries with measures to promote the use of electronic payment methods and the analysis of the factors determining their effectiveness make it possible to formulate a number of general observations concerning both the receipt lottery and the cashback programme, some of which had previously been voiced at the hearing on the 2020 Budget Act.[182]

Both the receipt lottery and the cashback programme represent, together with the other measures of the Cashless Italy Plan, measures that strengthen the tools available to combat business-to-consumer tax evasion associated which occurs without collusion between sellers and final consumers. However, the same measures do not appear to offer adequate incentives to counter so-called collusion to commit tax evasion, i.e. consensual arrangements in which there is an agreement between buyer and seller to not issue a receipt. First, under the current system, access to both the lottery and the cashback programme requires the completion of procedures that could be laborious and not immediately clear for many people.[183] Furthermore, prizes and refunds are not paid immediately at the time of purchase, as would be the case with an instant lottery or a cashback programme in the form of immediate refunds on purchase prices.[184] Both of these factors could discourage consumer participation and encourage collusion to commit evasion, especially for purchases with a relatively low unit value, taking into account the relatively modest incentives provided for merchants. In addition, it is necessary to assess

[181] In Korea, card issuers are required to regularly submit transaction data to the National Tax Service and routinely send it to taxpayers as well. In turn, the National Tax Service provides citizens with a pre-filled form with the transaction information, including cash transactions accompanied by an electronic receipt, for which they can request a tax discount. Going to the online portal for the system, taxpayers, after having submitted their application for the tax deduction, only need to check the accuracy of the pre-filled form with the transactions executed using electronic payment methods. If the taxpayer's request is valid, the deduction is granted directly in the pay slip the month following the tax return. If the deduction due is greater than the tax liability in the month in question, the excess portion of the refund is granted in the following months. An important role is played by employers acting as withholding agents.

[182] See Parliamentary Budget Office (2019), "Audizione del Presidente dell'Ufficio parlamentare di bilancio nell'ambito delle audizioni preliminari all'esame della legge di bilancio per il triennio 2020-2022", Commissioni congiunte 5ª del Senato della Repubblica (Bilancio) e V della Camera dei deputati (Bilancio, Tesoro e Programmazione), 12 November.

[183] The use of the "lottery code number" instead of the tax ID number for the receipt lottery and the downloading and registration of the app (APP IO) to participate in the cashback programme.

[184] Participants in the lottery have to wait for the drawings, while the payment of the cashback refund is based on the number and value of purchases over a 6-month period, after which the refunds will be paid out, which means in July and January each year.

the ability of these mechanisms to give rise to actual behavioural changes in the use of traceable payment instruments, bearing in mind the resources allocated to implementing these two measures. To be effective, these measures must provide significant incentives (for both consumers and merchants) either immediately or in the form of tax credits and be targeted at sectors where evasion through non-reporting is prevalent in order to maximize the increase in net tax revenue (i.e. the increase in revenue net of the administrative costs of the two programmes and the prizes paid out).

Finally, it should be borne in mind that the receipt lottery and the cashback programme, while overlapping in nature, require two totally different procedures and, in certain respects, must still be fully explained.

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